

Rous County Council

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2019



General Purpose Financial Statements

for the year ended 30 June 2019

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Rous County Council

General Purpose Financial Statements for the year ended 30 June 2019

Statement by councillors and management made pursuant to section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

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

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

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

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

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

Signed in accordance with a resolution of Council made on 22 October 2019.



Cr Keith Williams
Chair

22 October 2019



Cr Sharon Cadwallader
Deputy Chair

22 October 2019



Phillip Rudd
General Manager

22 October 2019



Guy Bezrouchko
Responsible Accounting Officer

22 October 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
18,903	User charges and fees	3a	19,500	18,604
700	Interest and investment revenue	3b	971	848
2,700	Other revenues	3c	2,692	5,566
714	Grants and contributions provided for operating purposes	3d,3e	1,511	1,320
2,623	Grants and contributions provided for capital purposes	3d,3e	5,671	5,592
<u>Other income:</u>				
2	Net gains from the disposal of assets	5	–	–
25,642	Total income from continuing operations		30,345	31,930
Expenses from continuing operations				
8,187	Employee benefits and on-costs	4a	7,460	7,171
1,746	Borrowing costs	4b	1,680	1,834
7,178	Materials and contracts	4c	8,976	6,952
6,540	Depreciation and amortisation	4d	6,788	6,668
890	Other expenses	4e	862	665
–	Net losses from the disposal of assets	5	1,562	1,412
–	Fair value decrement on investment properties		380	–
24,541	Total expenses from continuing operations		27,708	24,702
1,101	Operating result from continuing operations		2,637	7,228
1,101	Net operating result for the year		2,637	7,228
1,101	Net operating result attributable to council		2,637	7,228
(1,522)	Net operating result for the year before grants and contributions provided for capital purposes		(3,034)	1,636

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Income Statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		2,637	7,228
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	7,660	8,773
Total items which will not be reclassified subsequently to the operating result		7,660	8,773
Total other comprehensive income for the year		7,660	8,773
Total comprehensive income for the year		10,297	16,001
Total comprehensive income attributable to Council		10,297	16,001

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	2,698	2,334
Investments	6(b)	29,000	33,950
Receivables	7	2,414	1,901
Inventories	8a	464	346
Other	8b	502	528
Total current assets		<u>35,078</u>	<u>39,059</u>
Non-current assets			
Investments	6(b)	6,000	–
Receivables	7	13	–
Inventories	8a	1,417	1,473
Infrastructure, property, plant and equipment	9	485,272	477,736
Investment property	10a	740	710
Intangible assets	11	369	415
Total non-current assets		<u>493,811</u>	<u>480,334</u>
TOTAL ASSETS		<u>528,889</u>	<u>519,393</u>
LIABILITIES			
Current liabilities			
Payables	12	3,959	2,367
Borrowings	12	2,585	2,426
Provisions	13	1,845	1,779
Total current liabilities		<u>8,389</u>	<u>6,572</u>
Non-current liabilities			
Borrowings	12	21,560	24,145
Provisions	13	27	60
Total non-current liabilities		<u>21,587</u>	<u>24,205</u>
TOTAL LIABILITIES		<u>29,976</u>	<u>30,777</u>
Net assets		<u>498,913</u>	<u>488,616</u>
EQUITY			
Accumulated surplus	14a	238,191	235,554
Revaluation reserves	14a	260,722	253,062
Council equity interest		<u>498,913</u>	<u>488,616</u>
Total equity		<u>498,913</u>	<u>488,616</u>

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under AASB 139 *Financial Instruments: Recognition and Measurement*

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		235,554	253,062	488,616	228,326	244,289	472,615
Net operating result for the year		2,637	–	2,637	7,228	–	7,228
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9	–	7,660	7,660	–	8,773	8,773
Other comprehensive income		–	7,660	7,660	–	8,773	8,773
Total comprehensive income		2,637	7,660	10,297	7,228	8,773	16,001
Equity – balance at end of the reporting period		238,191	260,722	498,913	235,554	253,062	488,616

(1) The Council has not restated comparatives when initially applying AASB 9. The comparative information has been prepared under *AASB 139 Financial Instruments: Recognition and Measurement*

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
<u>Receipts</u>				
18,903	User charges and fees		19,250	20,272
700	Investment and interest revenue received		895	727
3,337	Grants and contributions		7,027	7,523
2,700	Other		2,647	4,182
<u>Payments</u>				
(8,187)	Employee benefits and on-costs		(7,241)	(7,270)
(7,178)	Materials and contracts		(8,562)	(6,943)
(1,746)	Borrowing costs		(1,709)	(1,861)
(890)	Other		(1,490)	(713)
7,639	Net cash provided (or used in) operating activities	15b	10,817	15,917
Cash flows from investing activities				
<u>Receipts</u>				
–	Sale of investment securities		30,950	31,370
–	Sale of real estate assets		2,654	–
5,554	Sale of infrastructure, property, plant and equipment		141	338
<u>Payments</u>				
–	Purchase of investment securities		(32,000)	(36,200)
–	Purchase of investment property		(410)	–
(11,647)	Purchase of infrastructure, property, plant and equipment		(7,288)	(8,516)
–	Purchase of real estate assets		(1,983)	–
–	Purchase of intangible assets		(91)	–
(6,093)	Net cash provided (or used in) investing activities		(8,027)	(13,008)
Cash flows from financing activities				
<u>Payments</u>				
(2,391)	Repayment of borrowings and advances		(2,426)	(2,275)
(2,391)	Net cash flow provided (used in) financing activities		(2,426)	(2,275)
(845)	Net increase/(decrease) in cash and cash equivalents		364	634
–	Plus: cash and cash equivalents – beginning of year	15a	2,334	1,700
(845)	Cash and cash equivalents – end of the year	15a	2,698	2,334
Additional Information:				
–	plus: Investments on hand – end of year	6(b)	35,000	33,950
(845)	Total cash, cash equivalents and investments		37,698	36,284

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

for the year ended 30 June 2019

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 22 October 2019. Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting.

Council is a not for-profit entity.

The financial statements are presented in Australian dollars and are rounded to the nearest thousand dollars.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts. Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

- Income statement
- Statement of cash flows
- Note 19 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

During the year, Council adopted all standards which were mandatorily effective for the first time at 30 June 2019.

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 14.

(b) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities and certain classes of infrastructure, property, plant and equipment and investment property.

(c) Significant accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Council's accounting policies.

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of investment properties – refer Note 10
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (iii) employee benefit provisions – refer Note 13.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Monies and other assets received by Council

(a) The Consolidated Fund

In accordance with the provisions of Section 409(1) of the Local Government Act 1993 (NSW), all money and property received by Council is held in the Council's Consolidated Fund unless it is required to be held in the Council's Trust Fund.

Cash and other assets of the following entities have been included as part of the Consolidated Fund:

- Water service
- Flood mitigation services
- Biological weeds management.

(b) The Trust Fund

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

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

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to the taxation authority is included with other receivables or payables in the Statement of Financial Position.

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

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods (and which have not been early adopted by Council).

Council's assessment of these new standards and interpretations (where they have been deemed as having a material impact on Council's future financial performance, financial position and cash flows) are set out below:

AASB 16 Leases

AASB 16 will result (for YE 19/20 and beyond) in almost all operating leases being recognised on the balance sheet by Council (alongside existing finance leases) with the distinction between operating and finance leases removed.

Under the new standard, a financial liability (ie. a lease liability) and an asset (ie. a right to use the leased item) will be recognised for nearly all arrangements where Council commits itself to paying a rental fee for the use of a specific asset.

The only exceptions are short-term and low-value leases which are exempt from the accounting (but not disclosure) requirements of AASB 16 - Leases.

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1/7/19).

AASB 16 will (on the whole) affect Council's accounting for existing operating lease agreements that are in place as at 30/6/19.

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$1,040,455 - refer Note 16.

Of these commitments, approximately \$72,233 relate to low value leases.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

These lease types and amounts will continue to be accounted for as they currently are (being expensed on a straight-line basis within the Income Statement).

For the remaining operating lease commitments of \$968,222, Council anticipates it will recognise lease liabilities (on its balance sheet) of \$902,722 (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) and also recognise complimentary right-of-use assets (on its balance sheet) totaling \$902,722 on 1 July 2019.

Operating cash flows will increase and financing cash flows decrease by approximately \$309,907 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

Council's activities as a lessor are not material and hence Council does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

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

AASB15 introduces a five-step process for revenue recognition, with the core principle of the new standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

Accounting policy changes will arise in the timing of revenue recognition, treatment of contract costs and contracts which contain a financing element.

Councils should assess each revenue stream but particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

The changes in revenue recognition requirements in AASB15 may cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures.

The impact of AASB15 is not expected to have any significant impact on the financial statements.

AASB 1058 Income of NFP Entities

AASB 1058 supersedes all the income recognition requirements relating to councils, previously in AASB 1004 Contributions.

Under AASB 1058 the future timing of income recognition will depend on whether the transaction gives rise to a liability or other performance obligation (a promise to transfer a good or service) related to an asset (such as cash or another asset) received by an entity.

AASB 1058 also applies when a council receives volunteer services or enters into other transactions in which the consideration to acquire an asset is significantly less than the fair value of the asset, and where the council's objective is principally to enable the asset to further the council's objectives.

Upon initial recognition of the asset, this standard requires council to consider whether any other financial statement elements (called 'related amounts') should be recognised in accordance with the applicable accounting standard, such as:

- (a) contributions by owners
- (b) revenue, or a contract liability arising from a contract with a customer
- (c) a lease liability
- (d) a financial instrument, or
- (e) a provision.

If the transaction is a transfer of a financial asset to enable council to acquire or construct a recognisable non-financial asset to be controlled by council (i.e. an in-substance acquisition of a non-financial asset), the council recognises a liability for the excess of the fair value of the transfer over any related amounts recognised. Council will then recognise income as it satisfies its obligations under the transfer similarly to income recognition in relation to performance obligations under AASB 15.

If the transaction does not enable council to acquire or construct a recognisable non-financial asset to be controlled by council, then any excess of the initial carrying amount of the recognised asset over the related amounts is recognised as income.

The specific impacts of AASB1058 for Council are not expected to have any significant impact on the financial statements.

Council has not applied any pronouncements before its operative date in the annual reporting period beginning 1 July 2018.

Notes to the Financial Statements
for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Notes to the Financial Statements
for the year ended 30 June 2019

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

Income, expenses and assets have been directly attributed to the following functions or activities.
Details of those functions or activities are provided in Note 2(b).

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Bulk Water Supply	22,963	25,516	19,986	17,892	2,977	7,624	–	38	380,976	374,816
Commerical Property	217	233	622	307	(405)	(74)	–	–	7,222	6,669
Fleet Operations	141	62	181	(28)	(40)	90	–	–	2,046	1,442
Flood Mitigation	1,545	1,418	2,686	2,291	(1,141)	(873)	561	591	125,142	124,860
Retail Water Supply	3,161	2,554	2,224	2,226	937	328	–	10	10,936	9,275
Richmond Water Laboratories	815	779	737	697	78	82	–	–	674	597
Weeds Biosecurity	1,503	1,386	1,272	1,335	231	51	842	597	1,893	1,734
Total functions and activities	30,345	31,948	27,708	24,720	2,637	7,228	1,403	1,236	528,889	519,393

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Bulk Water Supply

The regional water supply authority providing water in bulk to the local government areas of Lismore (excluding Nimbin), Ballina (excluding Wardell), Byron (excluding Mullumbimby) and Richmond Valley (excluding land to the west of Coraki).

Commerical Property

Real estate development and various rental properties.

Fleet Operations

All functions relating to vehicle investment, improving efficiency and productivity.

Flood Mitigation

Responsible for the construction, replacement and routine maintenance of various flood mitigation infrastructure. This includes floodgates and some rural drains and canals. In addition, we also have a key role in relation to an urban levee designed to protect the central business district of Lismore against a 1 in 10 year flood.

Retail Water Supply

Retail water services that are directly connected to Council's trunk main system.
Water filling stations.

Richmond Water Laboratories

Analyse water to assess drinking water quality, and offer a range of tests designed for rainwatertanks and bores. Also test the environmental quality of waste water and effluent, as well as run off and leachates from contaminated landfill sites.

Weeds Biosecurity

Wide range of activities to combat the spread of targeted weeds across the Northern Rivers region of NSW.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) User charges and fees		
Specific user charges		
<small>(per s.502 - specific 'actual use' charges)</small>		
Water supply services	19,468	18,573
Total specific user charges	19,468	18,573
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Regulatory/ statutory fees	32	31
Total fees and charges – statutory/regulatory	32	31
TOTAL USER CHARGES AND FEES	19,500	18,604

Accounting policy for user charges and fees

User charges and fees are recognised as revenue when the service has been provided.

(b) Interest and investment revenue

Interest on financial assets measured at amortised cost

– Overdue user fees and charges	3	2
– Cash and investments	968	846
TOTAL INTEREST AND INVESTMENT REVENUE	971	848

Interest revenue is attributable to:

Unrestricted investments/financial assets:

General Council cash and investments	971	848
Total interest and investment revenue	971	848

Accounting policy for interest and investment revenue

Interest income is recognised using the effective interest rate at the date that interest is earned.

\$ '000	Notes	2019	2018
(c) Other revenues			
Rental income – investment property	10	54	74
Rental income – other council properties		176	177
Assessment on other councils		1,457	1,425
Settlement		–	2,950
Water testing		807	779
Other		198	161
TOTAL OTHER REVENUE		2,692	5,566

Accounting policy for other revenue

Council recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Council and specific criteria have been met for each of the Council's activities as described below. Council bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

Miscellaneous sales are recognised when physical possession has transferred to the customer which is deemed to be the point of transfer of risks and rewards.

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

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(d) Grants				
Specific purpose				
Weed biosecurity	681	597	–	–
Flood mitigation	722	591	–	–
Water	–	38	–	–
Total specific purpose	1,403	1,226	–	–
Total grants	1,403	1,226	–	–
Grant revenue is attributable to:				
– State funding	1,403	1,226	–	–
	1,403	1,226	–	–

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Contributions					
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 64 – water supply contributions		–	–	5,564	4,980
Total developer contributions – cash		–	–	5,564	4,980
Total developer contributions	22	–	–	5,564	4,980
Other contributions:					
Cash contributions					
Bulk supply network		6	–	107	612
Flood mitigation		85	85	–	–
Weed biosecurity		17	9	–	–
Total other contributions – cash		108	94	107	612
Total other contributions		108	94	107	612
Total contributions		108	94	5,671	5,592
TOTAL GRANTS AND CONTRIBUTIONS		1,511	1,320	5,671	5,592

Accounting policy for grants and contributions

Control over grants and contributions is normally obtained upon their receipt (or acquittal) and is valued at the fair value of the granted or contributed asset at the date of transfer.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

Where grants or contributions recognised as revenues during the financial year were obtained on condition that they be expended in a particular manner, or used over a particular period, and those conditions were un-discharged at reporting date, the unused grant or contribution is disclosed below.

Council has obligations to provide facilities from contribution revenues levied on developers under the provisions of sections 7.4, 7.11 and 7.12 of the *Environmental Planning and Assessment Act 1979*.

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
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(f) Unspent grants and contributions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner:

Operating grants

Unexpended at the close of the previous reporting period	398	550
Add: operating grants recognised in the current period but not yet spent	90	25
Add: operating grants received for the provision of goods and services in a future period	–	–
Less: operating grants recognised in a previous reporting period now spent	(208)	(177)
Unexpended and held as restricted assets (operating grants)	280	398

Weeds Fund:

- NCLLC Community landcare project - work to commence 2019/20
- WAP additional funding received to purchase equipment in 2019/20

Flood Fund:

- VHR - project delays have resulted in an amended workplan being required by OEH

Capital grants

Unexpended at the close of the previous reporting period	14	27
Add: capital grants recognised in the current period but not yet spent	–	–
Add: capital grants received for the provision of goods and services in a future period	–	–
Less: capital grants recognised in a previous reporting period now spent	(7)	(13)
Unexpended and held as restricted assets (capital grants)	7	14

Remaining funds from grant received for flood damage May 2009.

Contributions

Unexpended at the close of the previous reporting period	75	29
Add: contributions recognised in the current period but not yet spent	84	74
Add: contributions received for the provision of goods and services in a future period	–	–
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate	–	–
Less: contributions recognised in a previous reporting period now spent	(40)	(28)
Unexpended and held as restricted assets (contributions)	119	75

Flood Fund receives a number of operating contribution each year. They consist of:

- Private landholder contributions
- Constituent Council contributions for the catchment activity model trailer & drainage union maintenance

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	5,417	5,198
Employee leave entitlements (ELE)	1,189	1,214
Superannuation	669	662
Workers' compensation insurance	97	95
Fringe benefit tax (FBT)	32	37
Payroll tax	252	317
Training costs (other than salaries and wages)	238	165
Other	111	130
Total employee costs	8,005	7,818
Less: capitalised costs	(545)	(647)
TOTAL EMPLOYEE COSTS EXPENSED	7,460	7,171

Accounting policy for employee benefits and on-costs

Employee benefit expenses are recorded when the service has been provided by the employee.

Retirement benefit obligations

All employees of the Council are entitled to benefits on retirement, disability or death. Council contributes to various defined benefit plans and defined contribution plans on behalf of its employees.

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 17 for more information.

(b) Borrowing costs**(i) Interest bearing liability costs**

Interest on loans	1,680	1,834
Total interest bearing liability costs expensed	1,680	1,834
TOTAL BORROWING COSTS EXPENSED	1,680	1,834

Accounting policy for borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	5,060	4,289
Contractor and consultancy costs	3,615	2,341
Auditors remuneration ²	63	81
Legal expenses:		
– Legal expenses: other	5	5
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	233	220
Other	–	16
Total materials and contracts	<u>8,976</u>	<u>6,952</u>
TOTAL MATERIALS AND CONTRACTS	<u>8,976</u>	<u>6,952</u>

Accounting policy for operating leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to Council as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

1. Operating lease payments are attributable to:

Buildings	233	220
	<u>233</u>	<u>220</u>

2. Auditor remuneration

During the year, the following fees were incurred for services provided by the auditor of Council, related practices and non-related audit firms

Auditors of the Council - NSW Auditor-General:**(i) Audit and other assurance services**

Audit and review of financial statements	63	70
Remuneration for audit and other assurance services	<u>63</u>	<u>70</u>

Total Auditor-General remuneration

	<u>63</u>	<u>70</u>
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Non NSW Auditor-General audit firms**(i) Audit and other assurance services**

Other audit and assurance services	–	11
Remuneration for audit and other assurance services	<u>–</u>	<u>11</u>

Total remuneration of non NSW Auditor-General audit firms

	<u>–</u>	<u>11</u>
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Total Auditor remuneration

	<u>63</u>	<u>81</u>
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		493	471
Office equipment		155	142
Furniture and fittings		30	32
Land improvements (depreciable)		60	35
Infrastructure:			
– Buildings		123	134
– Water supply network		5,032	4,957
– Flood mitigation assets		758	775
Intangible assets	11	137	122
Total gross depreciation and amortisation costs		6,788	6,668
Total depreciation and amortisation costs		6,788	6,668
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR INTANGIBLES AND IPP&E		6,788	6,668

Accounting policy for depreciation, amortisation and impairment expenses of intangibles and IPP&E**Depreciation and amortisation**

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets and Note 11 for intangible assets.

Depreciation is capitalised where in-house assets have contributed to new assets.

Impairment of non-financial assets

Council assets held at fair value that are not held primarily for their ability to generate net cash flow, and that are deemed to be specialised, are no longer required to be tested for impairment under AASB 136. This is because these assets are assessed on an annual basis to ensure that the carrying amount is not materially different from fair value and therefore an impairment loss would be captured during this assessment.

Intangible assets that have an indefinite useful life, or are not yet available for use, are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses for revalued assets are firstly offset against the amount in the revaluation surplus for the class of asset, with only the excess to be recognised in the Income Statement.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(e) Other expenses		
Advertising	14	11
Bank fees	7	6
Chairperson's fee	16	16
Councillors' fees	79	77
Councillors' (incl. Chairperson) expenses	17	17
Contributions and donations	5	5
Electricity	36	31
Insurance	242	248
Internal audit	52	22
Postage	4	6
Printing and stationery	93	68
Subscriptions and publications	48	–
Telephone	85	98
Water billing and collection	51	52
Other	113	8
Total other expenses	862	665
TOTAL OTHER EXPENSES	862	665

Accounting policy for other expenses

Other expenses are recorded on an accruals basis as the Council receives the goods or services.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 5. Gains or losses from the disposal, replacement and de-recognition of assets

\$ '000	Notes	2019	2018
Property (excl. investment property)			
Proceeds from disposal – property		–	–
Less: carrying amount of property assets sold/written off		(34)	–
Net gain/(loss) on disposal		(34)	–
Plant and equipment			
	9		
Proceeds from disposal – plant and equipment		141	338
Less: carrying amount of plant and equipment assets sold/written off		(105)	(231)
Net gain/(loss) on disposal		36	107
Infrastructure			
	9		
Proceeds from disposal – infrastructure		–	–
Less: carrying amount of infrastructure assets sold/written off		(2,277)	(1,519)
Net gain/(loss) on disposal		(2,277)	(1,519)
Real estate assets held for sale			
	8		
Proceeds from disposal – real estate assets		2,654	–
Less: carrying amount of real estate assets sold/written off		(1,941)	–
Net gain/(loss) on disposal		713	–
Investments			
	6(b)		
Proceeds from disposal/redemptions/maturities – investments		30,950	31,370
Less: carrying amount of investments sold/redeemed/matured		(30,950)	(31,370)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,562)	(1,412)

Accounting policy for disposal of assets

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income Statement.

The gain or loss on sale of an asset is determined when control of the asset has irrevocably passed to the buyer and the asset is de-recognised.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	76	81
Cash-equivalent assets		
– Deposits at call	2,622	2,253
Total cash and cash equivalents	<u>2,698</u>	<u>2,334</u>

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents include: cash on hand; deposits held at call with financial institutions; other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value; and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
a. 'Financial assets at fair value through profit and loss'				
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	29,000	6,000	33,950	–
Total Investments	<u>29,000</u>	<u>6,000</u>	<u>33,950</u>	<u>–</u>
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	<u>31,698</u>	<u>6,000</u>	<u>36,284</u>	<u>–</u>
Financial assets at amortised cost / held to maturity (2018)				
Long term deposits	29,000	6,000	33,950	–
Total	<u>29,000</u>	<u>6,000</u>	<u>33,950</u>	<u>–</u>

Accounting policy for investments**Accounting policy under AASB 9 – applicable from 1 July 2018**

Financial instruments are recognised initially on the date that the Council becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification

On initial recognition, Council classifies its financial assets into the following categories – those measured at:

- amortised cost
- fair value through profit and loss (FVTPL)
- fair value through other comprehensive income – equity instrument (FVOCI-equity)

Financial assets are not reclassified subsequent to their initial recognition.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows, and

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Council's financial assets measured at amortised cost comprise trade and other receivables, cash and cash equivalents, and investments in the Statement of Financial Position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, impairment and gains or loss on de-recognition are recognised in profit or loss.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Net gains or losses, including any interest or dividend income, are recognised in profit or loss.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Classification

Council classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are held at fair value with changes in value taken through profit or loss at each reporting period.

(b) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Council's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in other receivables (Note 8) and receivables (Note 7) in the Statement of Financial Position. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(d) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Assets in this category are held at fair value with changes in fair value taken to other comprehensive income.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade-date: the date on which Council commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the Income Statement as gains and losses from investment securities.

Impairment of financial assets

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

Impairment of available for sale investments

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	31,698	6,000	36,284	–
attributable to:				
External restrictions	3,749	–	3,411	–
Internal restrictions	26,508	6,000	29,953	–
Unrestricted	1,441	–	2,920	–
	<u>31,698</u>	<u>6,000</u>	<u>36,284</u>	<u>–</u>

\$ '000	2019	2018
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Details of restrictions

External restrictions – other

Specific purpose unexpended grants	287	412
Other	3,461	2,999

External restrictions – other

<u>3,748</u>	<u>3,411</u>
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Total external restrictions

<u>3,748</u>	<u>3,411</u>
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Internal restrictions

Flood Fund	1,243	1,328
Weeds Bio Fund	944	56
Retail Water Fund	1,817	607
Richmond Water Laboratories Fund	408	351
Commercial Property Fund	1,835	1,395
Fleet Fund	660	1,331
Bulk Fund - Building & structures	344	638
Bulk Fund - Assets & programs	20,150	19,359
Bulk Fund - Employees leave entitlement	1,871	1,839
Bulk Fund - Electricity	2,272	2,272
Bulk Fund - Office equipment & computers	871	777
Bulk Fund - Greenhouse gas abatement	94	–

Total internal restrictions

<u>32,509</u>	<u>29,953</u>
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TOTAL RESTRICTIONS

<u>36,257</u>	<u>33,364</u>
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
User charges and fees	112	–	85	–
Accrued revenues				
– Interest on investments	511	13	448	–
– Other income accruals	527	–	432	–
Government grants and subsidies	572	–	492	–
Sundry debtors	692	–	444	–
Total	2,414	13	1,901	–
TOTAL NET RECEIVABLES	2,414	13	1,901	–
Externally restricted receivables				
Water supply				
– Other	69	–	–	–
Other				
Government grants and subsidies	572	–	492	–
Sec 64 headworks	499	–	417	–
Total external restrictions	1,140	–	909	–
Unrestricted receivables	1,274	–	992	–
TOTAL NET RECEIVABLES	2,414	13	1,901	–

Accounting policy for receivables

Recognition and measurement

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

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Receivables are generally due for settlement within 30 days.

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

Impairment of financial assets measured at amortised cost is recognised on an expected credit loss (ECL) basis.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating ECL, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on Council's historical experience and informed credit assessment, and including forward-looking information.

The Council uses the presentation that a financial asset is in default when:

- the other party is unlikely to pay its credit obligations to the Council in full, without recourse by the Council to actions such as realising security (if any is held) or
- the financial assets (for non-rates debtors) are more than 90 days past due.

Credit losses are measured as the present value of the difference between the cash flows due to the entity in accordance with the contract, and the cash flows expected to be received. This is applied using a probability weighted approach.

On initial recognition of the asset, an estimate of the expected credit losses for the next 12 months is recognised. Where the asset has experienced, significant increase in credit risk then the lifetime losses are estimated and recognised.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

None of the receivables that have been written off are subject to enforcement activity.

Where the Council renegotiates the terms of receivables due from certain customers, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in profit or loss.

Accounting policy under AASB 139 – applicable for 2018 comparatives only

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

Collectability of receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired. When a receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Income Statement.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	98	1,191	–	1,247
Stores and materials	366	226	346	226
Total inventories at cost	464	1,417	346	1,473
TOTAL INVENTORIES	464	1,417	346	1,473
(b) Other assets				
Prepayments	218	–	268	–
Bonds and security deposits	284	–	260	–
TOTAL OTHER ASSETS	502	–	528	–

(i) Other disclosures

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Details for real estate development					
Residential – undeveloped		98	1,191	–	1,247
Total real estate for resale		98	1,191	–	1,247
(Valued at the lower of cost and net realisable value)					
Represented by:					
Development costs		98	1,191	–	1,247
Total costs		98	1,191	–	1,247
Total real estate for resale		98	1,191	–	1,247
Movements:					
Real estate assets at beginning of the year		–	1,247	–	1,247
– Purchases and other costs		2,039	(56)	–	–
– WDV of sales (expense)	5	(1,941)	–	–	–
Total real estate for resale		98	1,191	–	1,247

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. 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.

Inventory held for distribution

Stores and materials held for distribution are held at cost, adjusted where applicable for any loss of service potential.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

Real estate held for resale/capitalisation of borrowing costs

Real estate held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed, borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of real estate held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018			Asset movements during the reporting period						as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ⁽¹⁾	Additions new assets	Carrying value of disposals	Depreciation expense	WIP transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	9,927	–	9,927	5,313	1,135	–	–	(7,276)	–	9,099	–	9,099
Plant and equipment	3,997	(2,343)	1,654	–	415	(105)	(493)	–	–	4,154	(2,683)	1,471
Office equipment	1,572	(1,324)	248	–	218	–	(155)	–	–	1,780	(1,469)	311
Furniture and fittings	701	(308)	393	–	12	–	(30)	2	–	715	(338)	377
Land:												
– Operational land	10,109	–	10,109	–	–	–	–	–	397	10,506	–	10,506
– Non-depreciable land improvements – water supply network	2,337	–	2,337	–	–	–	–	–	37	2,374	–	2,374
– Depreciable land improvements – water supply network	1,841	(779)	1,062	–	151	(11)	(60)	1,245	36	3,247	(824)	2,423
Infrastructure:												
– Buildings	4,757	(2,544)	2,213	–	6	(39)	(123)	–	79	4,853	(2,717)	2,136
– Water supply network	453,168	(124,656)	328,512	2,123	100	(2,189)	(5,032)	5,465	5,184	460,397	(126,234)	334,163
– Flood mitigation	132,773	(11,492)	121,281	39	–	(78)	(758)	–	1,927	134,817	(12,405)	122,412
Total Infrastructure, property, plant and equipment	621,182	(143,446)	477,736	7,475	2,037	(2,422)	(6,651)	(564)	7,660	631,942	(146,670)	485,272

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment (continued)

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent comprehensive valuations are performed at least every five years, however the carrying amount of assets is assessed by Council at each reporting date to confirm that it is not materially different from current fair value.

Water and sewerage network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Industry (DoI) – Water.

Increases in the carrying amounts arising on revaluation are credited to the revaluation reserve. To the extent that the increase reverses a decrease previously recognising profit or loss relating to that asset class, the increase is first recognised as profit or loss. Decreases that reverse previous increases of assets in the same class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the Income Statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

When infrastructure, property, plant and equipment are acquired by Council for nil or nominal consideration, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Council will obtain ownership at the end of the lease term. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Other equipment	Years
Office equipment	2 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	2 to 5		
Vehicles	5	Buildings	
Heavy plant	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
		Flood mitigation assets	
Water and sewer assets		Drains	15 to 80
Dams and reservoirs	80 to 150	Culverts	50 to 80
Bores	20 to 50	Flood control structures	10 to 80
Reticulation pipes: PVC	70 to 90	Bulk earthworks	Infinite
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Investment property

\$ '000	2019	2018
(a) Investment property at fair value		
Investment property on hand	740	710
Reconciliation of annual movement:		
Opening balance	710	710
– Net gain/(loss) from fair value adjustments	(380)	–
– Subsequent expenditure	410	–
CLOSING BALANCE – INVESTMENT PROPERTY	740	710

(b) Valuation basis

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

The 2019 revaluations were based on independent assessments made by:
Taylor Byrne - Valuers & property consultants

(c) Contractual obligations at reporting date

Refer to Note 16 for disclosures relating to any capital and service obligations that have been contracted.

(d) Leasing arrangements – Council as lessor

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly.

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

Within 1 year	54	36
Later than 1 year but less than 5 years	75	–
Total minimum lease payments receivable	129	36

Council has a three year lease agreement due to expire 31 October 2021.

(e) Investment property income and expenditure – summary

Rental income from investment property:		
– Minimum lease payments	54	74
Direct operating expenses on investment property:		
– that generated rental income	(18)	(17)
Net revenue contribution from investment property	36	57
plus:		
Fair value movement for year	(380)	–
Total income attributable to investment property	(344)	57

Accounting policy for investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Council. Changes in fair values are recorded in the Income Statement as a separate line item.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Investment property (continued)

Properties that are under construction for future use as investment properties are regarded as investment property. These are also carried at fair value unless the fair value cannot yet be reliably determined. Where that is the case, the property will be accounted for at cost until either the fair value becomes reliably determinable or construction is complete.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Intangible assets

\$ '000	2019	2018
Intangible assets are as follows:		
Opening values at 1 July		
Gross book value	1,048	592
Accumulated amortisation	(633)	(510)
Net book value – opening balance	415	82
Movements for the year		
– Purchases	91	456
– Amortisation charges	(137)	(123)
Closing values at 30 June		
Gross book value	1,139	1,048
Accumulated amortisation	(770)	(633)
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u>	<u>369</u>	<u>415</u>
The net book value of intangible assets represents:		
– Software	369	415
	<u>369</u>	<u>415</u>

Accounting policy for intangible assets

IT development and software

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

Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years. IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services	397	–	433	–
Capital creditors	2,321	–	666	–
Accrued expenses:				
– Borrowings	321	–	350	–
– Salaries and wages	186	–	–	–
Accrued expenses	296	–	611	–
Other	438	–	307	–
Total payables	3,959	–	2,367	–
Borrowings				
Loans – secured ¹	2,585	21,560	2,426	24,145
Total borrowings	2,585	21,560	2,426	24,145
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>6,544</u>	<u>21,560</u>	<u>4,793</u>	<u>24,145</u>

(1) Loans are secured over the general income of Council.

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 18.

\$ '000	2019	2018
Financing arrangements		
(i) Unrestricted access was available at balance date to the following lines of credit:		
Bank overdraft facilities ¹	100	100
Credit cards/purchase cards	150	110
Total financing arrangements	250	210
Undrawn facilities as at balance date:		
– Bank overdraft facilities	100	100
– Credit cards/purchase cards	150	110
Total undrawn financing arrangements	250	210

(1) The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

Accounting policy for payables and borrowings

Council measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Council comprise trade payables, bank and other loans and finance lease liabilities.

Payables

These amounts represent liabilities for goods and services provided to the council prior to the end of financial year that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

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

Finance leases

Leases of property, plant and equipment where Council, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased assets or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	538	–	522	–
Long service leave	1,254	27	1,215	60
TIL	53	–	42	–
Sub-total – aggregate employee benefits	1,845	27	1,779	60
TOTAL PROVISIONS	1,845	27	1,779	60

\$ '000	2019	2018
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Current provisions not anticipated to be settled within the next twelve months

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

Provisions – employees benefits	1,070	1,059
	1,070	1,059

Accounting policy for provisions

Provisions are recognised when Council has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits**Short-term obligations**

Liabilities for wages and salaries (including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service) are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term employee benefit obligations

The liability for long-service leave and annual leave that is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

On-costs

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

The employee benefit provisions include the aggregate on-cost liabilities that will arise when payment of current employee benefits is made in future periods.

These amounts include superannuation, payroll tax and workers compensation expenses which will be payable upon the future payment of certain leave liabilities which employees are entitled to at the reporting period.

The obligations are presented as current liabilities in the Statement of Financial Position if the Council does not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

(b) Changes in accounting policies due to adoption of new accounting standards (not-retrospective)

During the year, Council adopted a number of new accounting standards. The impact of the adoption and associated transition disclosures are shown below.

The Council has adopted AASB 9 Financial Instruments for the first time in the current year with a date of initial adoption of 1 July 2017. As part of the adoption of AASB 9, the Council adopted consequential amendments to other accounting standards arising from the issue of AASB 9 as follows:

- AASB 101 Presentation of Financial Statements requires the impairment of financial assets to be presented in a separate line item in the income statement. In prior year, this information was presented as part of other expenses.
- AASB 7 Financial Instruments: Disclosures requires amended disclosures due to changes arising from AASB 9. These disclosures have been provided for the current year.

The key changes to Council's accounting policy and the impact on these financial statements from applying AASB 9 are described below.

Changes in accounting policies resulting from the adoption of AASB 9 have been applied retrospectively except Council has not restated any amounts relating to classification and measurement requirements, including impairment, which have been applied from 1 July 2018.

Classification of financial assets

The financial assets of Council have been reclassified into one of the following categories on adoption of AASB 9, based primarily on the business model in which a financial asset is managed and its contractual cash flow characteristics are:

- measured at amortised cost
- fair value through profit or loss
- fair value through other comprehensive income – equity instruments

Measurement of equity instruments

All equity instruments of the Council are measured at fair value under AASB 9 whereas there was a cost exception under AASB 139 that allowed certain unlisted investments to be carried at amortised cost in the absence of a reliable measurement of fair value. Any difference in the previous carrying amount and the fair value is recognised in the opening retained earnings (or other component of equity, as appropriate) at 1 July 2018.

Equity instruments are no longer subject to impairment testing and therefore all movements on equity instruments, classified as fair value through other comprehensive income, are taken to the relevant reserve.

Impairment of financial assets

The incurred loss model from AASB 139 has been replaced with an expected credit loss model in AASB 9 for assets measured at amortised cost. This has resulted in the earlier recognition of credit loss (bad debt provisions).

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**Transition adjustments**

The table below illustrates the classification and measurement of financial assets and liabilities under AASB 9 and AASB 139 at 1 July 2018.

\$ '000	Classific- ation under AASB 139	Classific- ation under AASB 9	Carrying amount under AASB 139	Reclassi- fication	Remeasu- rements	Carrying amount under AASB 9
Financial assets						
Cash and cash equivalents	Loans and receivables	Amortised cost	2,334	–	–	2,334
Term deposits (i)	Held to maturity	Amortised cost	33,950	–	–	33,950
Receivables	Loans and receivables	Amortised cost	1,901	–	–	1,901
Total financial assets under AASB 9 at 1 July 2018			38,185	–	–	38,185
Financial liabilities						
Secured bank loans	Other financial liabilities	Other financial liabilities	26,571	–	–	26,571
Payables	Other financial liabilities	Other financial liabilities	2,367	–	–	2,367
Total financial liabilities under AASB 9 at 1 July 2018			28,938	–	–	28,938

Notes to the table above**(i) Reclassification from 'held to maturity' to 'amortised cost'**

Term deposits that would previously have been classified as 'held to maturity' are now classified at 'amortised cost'. Council intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount of these assets.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	2,698	2,334
Balance as per the Statement of Cash Flows		2,698	2,334
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		2,637	7,228
Adjust for non-cash items:			
Depreciation and amortisation		6,788	6,668
Net losses/(gains) on disposal of assets		1,562	1,412
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		380	–
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(526)	755
Decrease/(increase) in inventories		(20)	(67)
Decrease/(increase) in other current assets		26	(99)
Increase/(decrease) in payables		(36)	241
Increase/(decrease) in accrued interest payable		(29)	(27)
Increase/(decrease) in other accrued expenses payable		(129)	(119)
Increase/(decrease) in other liabilities		131	24
Increase/(decrease) in provision for employee benefits		33	(99)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		10,817	15,917

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Commitments

\$ '000	2019	2018
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	7	36
Plant and equipment	99	110
Infrastructure	2,949	1,300
Land development	175	1,405
Investment property		
– Buildings	5	14
Total commitments	3,235	2,865
These expenditures are payable as follows:		
Within the next year	3,235	2,865
Total payable	3,235	2,865
Sources for funding of capital commitments:		
Internally restricted Bulk Water funds	3,055	1,446
Internally restricted Property funds	180	1,419
Total sources of funding	3,235	2,865

Details of capital commitments

Council has committed to progressing the St Helena 600 upgrade.

(b) Operating lease commitments (non-cancellable)**a. Commitments under non-cancellable operating leases at the reporting date, but not recognised as liabilities are payable:**

Within the next year	367	380
Later than one year and not later than 5 years	673	1,109
Total non-cancellable operating lease commitments	1,040	1,489

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

Galactica Tours lease for the Molesworth Street building (Rous Water main office building).

Colorworks lease for organisation wide printers.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED**1. Guarantees****(i) Defined benefit superannuation contribution plans**

Council is party to an Industry Defined Benefit Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B (the Scheme) which is a defined benefit plan that has been deemed to be a 'multi-employer fund' for purposes of AASB119 Employee Benefits for the following reasons:

- Assets are not segregated within the sub-group according to the employees of each sponsoring employer.
- The contribution rates have been the same for all sponsoring employers. That is, contribution rates have not varied for each sponsoring employer according to the experience relating to the employees of that sponsoring employer.
- Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer.
- The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of other sponsoring employers, and hence shares in the associated gains and losses (to the extent that they are not borne by members).

Description of the funding arrangements.

Pooled employers are required to pay standard employer contributions and additional lump sum contributions to the fund.

The standard employer contributions were determined using the new entrant rate method under which a contribution rate sufficient to fund the total benefits over the working life-time of a typical new entrant is calculated. The current standard employer contribution rates are:

Division B	1.9 times employee contributions
Division C	2.5% salaries
Division D	1.64 times employee contributions

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40 million per annum from 1 July 2018 for 3 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2018.

The adequacy of contributions is assessed at each triennial actuarial investigation and monitored annually between triennials.

Description of the extent to which Council can be liable to the plan for other Council's obligations under the terms and conditions of the multi-employer plan

As stated above, each sponsoring employer (Council) is exposed to the actuarial risks associated with current and former employees of other sponsoring employers and hence shares in the associated gains and losses.

However, there is no relief under the Fund's trust deed for employers to walk away from their defined benefit obligations. Under limited circumstances, an employer may withdraw from the plan when there are no active members, on full payment of outstanding additional contributions. There is no provision for allocation of any surplus which may be present at the date of withdrawal of the Council.

There are no specific provisions under the Fund's trust deed dealing with deficits or surplus on wind-up.

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$ 79,058.80. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Contingencies and other assets/liabilities not recognised (continued)

The amount of additional contributions included in the total employer contribution advised above is \$79,058.80. Council's expected contribution to the plan for the next annual reporting period is \$70,219.24.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2019 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,798.7	
Past Service Liabilities	1,784.2	100.8%
Vested Benefits	1,792.0	100.4%

* excluding member accounts and reserves in both assets and liabilities.

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$94,000 as at 30 June 2019.

Council's share of that deficiency cannot be accurately calculated as the Scheme is a mutual arrangement where assets and liabilities are pooled together for all member councils. For this reason, no liability for the deficiency has been recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct the deficiency.

The key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment return	5.75% per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

The contribution requirements may vary from the current rates if the overall sub-group experience is not in line with the actuarial assumptions in determining the funding program; however, any adjustment to the funding program would be the same for all sponsoring employers in the Pooled Employers group.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management

Risk management

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

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

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

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

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

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	2,698	2,334	2,698	2,334
Receivables	2,427	1,901	2,427	1,901
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	35,000	33,950	35,000	33,950
Total financial assets	40,125	38,185	40,125	38,185
Financial liabilities				
Payables	3,959	2,367	3,959	2,367
Loans/advances	24,145	26,571	32,594	31,450
Total financial liabilities	28,104	28,938	36,553	33,817

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

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

Council has an investment policy which complies with the Local Government Act 1993 and Minister's investment order 625. This policy is regularly reviewed by Council and its staff and an investment report is tabled before Council on a monthly basis setting out the portfolio breakup and its performance as required by Local Government regulations.

The risks associated with the instruments held are:

- **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 or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.
- **Credit risk** – the risk that the investment counterparty will not complete their obligations particular to a financial instrument, resulting in a financial loss to Council – be it of a capital or income nature.

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

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

The impact on result for the year and equity of a reasonably possible movement in the price of investments held and interest rates is shown below. The reasonably possible movements were determined based on historical movements and economic conditions in place at the reporting date.

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	377	377	(377)	(377)
2018				
Possible impact of a 1% movement in interest rates	363	363	(363)	(363)

(b) Credit risk

Council's major receivables comprise user charges and fees, contributions from constituent councils and sundry debtors.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

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

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

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

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

Receivables - non-rates and annual charges

Council applies the simplified approach for non-rates and annual charges debtors to provide for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision. To measure the expected credit losses, non-rates and annual charges debtors have been grouped based on shared credit risk characteristics and the days past due.

The loss allowance provision as at 30 June 2019 is determined as follows. The expected credit losses incorporate forward-looking information.

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	2,062	–	349	5	11	2,427
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ECL provision	–	–	–	–	–	–
2018						
Gross carrying amount	1,652	134	105	10	–	1,901
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ECL provision	–	–	–	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Financial risk management (continued)

(c) Liquidity risk

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

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

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

Borrowings are also subject to interest rate risk – the risk that movements in interest rates could adversely affect funding costs and debt servicing requirements. Council manages this risk through diversification of borrowing types, maturities and interest rate structures. The finance team regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The timing of cash flows presented in the table below to settle financial liabilities reflects the earliest contractual settlement dates. The timing of expected outflows is not expected to be materially different from contracted cashflows.

The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the statement of financial position due to the effect of discounting.

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
2019							
Trade/other payables	0.00%	–	3,959	–	–	3,959	3,959
Loans and advances	6.58%	–	4,136	16,313	10,755	31,204	24,145
Total financial liabilities		–	8,095	16,313	10,755	35,163	28,104
2018							
Trade/other payables	0.00%	–	2,367	–	–	2,367	2,367
Loans and advances	6.58%	–	4,136	16,428	14,833	35,397	26,571
Total financial liabilities		–	6,503	16,428	14,833	37,764	28,938

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 19/06/2019 and is unaudited.

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

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

Material variations represent those variances between the original budget figure and the actual result that amount to **10%** or more.

Variation Key: **F** = Favourable budget variation, **U** = Unfavourable budget variation.

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
User charges and fees	18,903	19,500	597	3% F
Interest and investment revenue	700	971	271	39% F
Interest & investment revenue was \$271k (F) (39%) in excess of the original budget. The original budget for investment interest was based on an average portfolio balance of \$27.09 million calculated on an average rate of return of 2.5%. The portfolio size remained consistently higher due to Section 64 Developer Contributions and slower than anticipated cash flow requirements for capital works, with an average held balance of \$35 million. Whilst interest rates remained low they outperformed the BBSW on average by 84 points for the 2018/19 year.				
Other revenues	2,700	2,692	(8)	0% U
Operating grants and contributions	714	1,511	797	112% F
Grants & contributions provided for operating purposes were \$797k (F) (112%) above the original budget. Restoration works under the Natural Disaster Relief Assistance Program in relation to the March 2017 flood accounted for \$534k (F) - Lismore levee \$490k, rural levees \$125k (Bungawalbyn levee, Swan Bay levee and Suffolks levee). Funding was also received for OEH/PDIE grant Review of Lismore's Flood Risk Management Plan after March 17 flood \$73k (F). Additional funding was also received for Weeds Action Program \$100k (F), Alligator Weed Swan Bay \$30k (F), Miconia Weeds \$21k (F), Yellow Crazy Ants \$19k (F) and NCLLC Community Landcare \$60k (F).				
Capital grants and contributions	2,623	5,671	3,048	116% F
Grants & contributions provided for capital purposes resulted in an increase of \$3.048 million (F) (116%) above budget. The revenue increase can primarily be attributed to increased receipts for Section 64 Developer Contributions of \$3 million (117%) (F) higher than originally budgeted.				
Net gains from disposal of assets	2	-	(2)	100% U

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Material budget variations

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
EXPENSES				
Employee benefits and on-costs	8,187	7,460	727	9% F
Borrowing costs	1,746	1,680	66	4% F
Materials and contracts	7,178	8,976	(1,798)	(25)% U
Materials & contracts costs were \$1.798k (U) (25%) above the original budget. This was largely a result of expenditure on restoration works under the Natural Disaster Relief Assistance Program in relation to the March 2017 flood of \$563k. Costs previously treated as capital work in progress, but were unable to be capitalise and were expensed consist of corrosion & treatment plant works \$244k, flood mitigation studies \$166k, various buiding works \$461k and information technology projects \$317k.				
Depreciation and amortisation	6,540	6,788	(248)	(4)% U
Other expenses	890	862	28	3% F
Net losses from disposal of assets	-	1,562	(1,562)	(100)% U
Traditionally, Council has not provided a budget for loss on disposal of assets due to the inherent difficulty in estimating proceeds from asset disposal. As a result actual loss on disposal of assets has produced a variance of \$1.56 million (U). This loss is comprised of losses to infrastructure \$2.2 million and buiding \$34k assets. Offset by gains to plant & equipment \$36k and land development sales \$713k.				
Fair value decrement on investment property	-	380	(380)	(100)% U
Investment properties are valued annually, with any increment or decrement appearing on the Income Statement. Extensive repairs and maintenance works were conducted on Council's investment property. As these works were greater than the new fair valuation, they are required to be expensed.				

Notes to the Financial Statements for the year ended 30 June 2019

Note 20. Fair Value Measurement

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

- Infrastructure, property, plant and equipment
- Investment property
- Financial assets and liabilities

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

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

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

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

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

(1) Assets and liabilities that have been measured and recognised at fair values

2019	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Investment property						
	10	01/04/19	–	740	–	740
Total investment property			–	740	–	740
Infrastructure, property, plant and equipment						
	9		–	–	2,136	2,136
			–	–	10,506	10,506
			–	–	2,374	2,374
			–	–	2,423	2,423
			–	–	162,890	162,890
			–	–	171,275	171,275
			–	–	122,412	122,412
Total infrastructure, property, plant and equipment			–	–	474,016	474,016

2018	Notes	Date of latest valuation	Fair value measurement hierarchy			Total
			Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Investment property						
	10		–	710	–	710
Total investment property			–	710	–	710

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

2018	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Infrastructure, property, plant and equipment						
Buildings			–	–	2,213	2,213
Land			–	–	10,109	10,109
Non-depreciable land improvements			–	–	2,337	2,337
Depreciable land improvements			–	–	1,062	1,062
Water infrastructure: water distribution assets			–	–	158,395	158,395
Water infrastructure: dams and treatment assets			–	–	170,116	170,116
Flood mitigation infrastructure			–	–	121,281	121,281
Total infrastructure, property, plant and equipment			–	–	465,513	465,513

Note that capital WIP is not included above since it is carried at cost.

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

(3) Valuation techniques used to derive level 2 and level 3 fair values

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

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

Investment property

For Investment property, council obtains external valuations by independent valuers on an annual basis.

The last revaluation was performed by Taylor Byrne Pty Ltd for the 2018/19 financial year.

Taylor Byrne Pty Ltd is an independent entity and is not an employee of Council.

Infrastructure, property, plant and equipment (IPP&E)

For land, buildings and infrastructure council obtains external valuations by independent valuers every five years. The last revaluation was performed by:

- Water Infrastructure – APV Valuers & Asset Management for the 2016/17 financial year. APV Valuers & Asset Management is an independent entity and is not an employee of Council.
- Flood Mitigation Infrastructure – APV Valuers & Asset Management for the 2014/15 financial year. APV Valuers & Asset Management is an independent entity and is not an employee of Council.
- Land & Buildings – Taylor Byrne Pty Ltd for the 2017/18 financial year. Taylor Byrne Pty Ltd is an independent entity and is not an employee of Council.

At the end of each reporting period a fair value assessment is made on any movements since the last revaluation, and a determination as to whether any adjustments need to be made. These adjustments are made by way of application of indices.

In accordance with AASB 13 Fair Value Measurement no assets have been found to have a higher and better use than their current use. Highest and best use takes account of use that is physically possible, legally permissible and financially feasible.

The following non-current assets categorised above have been measured as either level 2 or level 3 based on the following valuation techniques and inputs:

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the Council considers information from a variety of sources, including:

- Current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.
- Discounted cash flow projections based on reliable estimates of future cash flows.
- Capitalised income projections based on a property's estimated not market income, and a capitalisation rate derived from an analysis of market evidence.

All resulting fair value estimates for properties are included in level 3.

Specialised buildings were valued using the cost approach using professionally qualified Registered Valuers. The approach estimated replacement cost for each building componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on square metres could be supported from market evidence (level 2) other inputs (such as estimates of 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.

Newly Completed Buildings are categorised as level 2, as the initial measurement is recognised at cost and is represented accordingly until subject to revaluation. This is considered appropriate as, once assets are brought into use, there is no longer an identical correlation with the "shelf product". Council did not have any of these assets at reporting date.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Fair Value Measurement (continued)

For infrastructure, many assets are of a specialised nature or use, and thus the most appropriate valuation method is current replacement cost. These assets are included as Level 3 as these assets have a high level of unobservable inputs.

For non-specialised assets with short useful lives, AASB 13 allows recognition at depreciated historical cost as an acceptable surrogate for fair value as differences are considered immaterial.

Water Infrastructure Assets

Council's water infrastructure assets include Distributions assets (such as water pipelines) Treatment Assets (such as treatment plants) and Source Assets (such as Rocky Creek Dam) and Catchment Assets.

These assets are valued by an external valuer every 5 years using the cost approach.

In between full revaluations, these assets are indexed each year in line with the NSW Reference Rates Manuals as published by the NSW Office of Water.

Whilst the units rates based on linear metres of certain diameter pipes and prices per unit per pit or similar capacity can be supported by market evidence (Level 2), other inputs (such as estimates or residual value, useful life, pattern of consumption and asset condition) require extensive professional judgement and impact significantly on the final determination of fair value. As such, this asset class is classified as being valued using Level 3 inputs. There has been no change to the valuation process during the reporting period.

The current replacement cost of each asset is calculated to assess fair value. The current replacement cost of the individual infrastructure assets is assessed by referencing to building costs in external publications such as the Rawlinson's Australian Construction Handbook and with allowances made for the regional locations as well as internal project costs for similar assets. The useful economic life of the assets is assessed in accordance with Council's Asset Capitalisation Policy as described in Note 1. The remaining economic life is assessed based upon physical depreciation and obsolescence. The council provides details to the valuer, of any known structural faults and future planning which may involve the demolition or removal of an asset. Any new assets constructed in between full revaluation years are included and where refurbishment has been undertaken the capital expenditure is reflected in the remaining life of the asset.

Construction costs used to establish gross replacement cost are not expected to have significant variations, unless new construction is impacted by building/construction variations. Sensitivity to changes in unobservable inputs may significantly impact on fair value. Council's exposure to sensitivity of the unobservable inputs is generally limited to the projected increase in infrastructure construction costs which has historically been in the range of 2-5% per annum. Disclosure of additional quantitative information about significant unobservable inputs is considered immaterial.

Flood Mitigation Infrastructure

The current replacement cost of each asset is calculated to assess fair value. The current replacement cost of the individual infrastructure assets is assessed by referencing to building costs in external publications such as the Rawlinson's Australian Construction Handbook and with allowances made for the regional locations as well as internal project costs for similar assets. The useful economic life of the assets is assessed in accordance with Council's Asset Capitalisation Policy as described in Note 1. The remaining economic life is assessed based upon physical depreciation and obsolescence. The council provides details to the valuer, of any known structural faults and future planning which may involve the demolition or removal of an asset. Any new assets constructed in between full revaluation years are included and where refurbishment has been undertaken the capital expenditure is reflected in the remaining life of the asset.

Construction costs used to establish gross replacement cost are not expected to have significant variations, unless new construction is impacted by building/construction variations. The Council is not aware of any sensitivity to changes in unobservable inputs that may significantly impact on fair value.

(4) Highest and best use

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

Notes to the Financial Statements
for the year ended 30 June 2019

Note 21. Related Party Transactions

Key management personnel

Key management personnel (KMP) of the council are those persons having the authority and responsibility for planning, directing and controlling the activities of the council, directly or indirectly.

The aggregate amount of KMP compensation included in the Income Statement is:

\$ '000	2019	2018
Compensation:		
Short-term benefits	345	336
Post-employment benefits	20	19
Other long-term benefits	6	14
Total	371	369

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Statement of developer contributions

Under the *Environmental Planning and Assessment Act 1979*, Council has significant obligations to provide Section 7.11 (contributions towards provision or improvement of amenities or services) infrastructure in new release areas.

It is possible that the funds contributed may be less than the cost of this infrastructure, requiring Council to borrow or use general revenue to fund the difference.

Summary of contributions and levies

	as at 30/6/2018						as at 30/6/2019	
	Opening Balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000		Cash	Non-cash					
S64 contributions	–	5,564	–	–	(5,564)	–	–	–
Total contributions	–	5,564	–	–	(5,564)	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019
Income Statement by fund		
Income from continuing operations		
User charges and fees	–	19,500
Interest and investment revenue	99	872
Other revenues	2,470	222
Grants and contributions provided for operating purposes	1,511	–
Grants and contributions provided for capital purposes	–	5,671
Total income from continuing operations	4,080	26,265
Expenses from continuing operations		
Employee benefits and on-costs	1,442	6,018
Borrowing costs	7	1,673
Materials and contracts	2,231	6,745
Depreciation and amortisation	882	5,906
Other expenses	265	597
Net losses from the disposal of assets	(602)	2,164
Fair value decrement on investment property	380	–
Total expenses from continuing operations	4,605	23,103
Operating result from continuing operations	(525)	3,162
Net operating result for the year	(525)	3,162
Net operating result attributable to each council fund	(525)	3,162
Net operating result for the year before grants and contributions provided for capital purposes	(525)	(2,509)

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019
Statement of Financial Position by fund		
ASSETS		
Current assets		
Cash and cash equivalents	388	2,310
Investments	4,382	24,618
Receivables	885	1,529
Inventories	160	304
Other	292	210
Total current assets	6,107	28,971
Non-current assets		
Investments	–	6,000
Receivables	–	3,901
Inventories	5,141	226
Infrastructure, property, plant and equipment	123,412	361,860
Investment property	740	–
Intangible assets	4	365
Total non-current assets	129,297	372,352
TOTAL ASSETS	135,404	401,323
LIABILITIES		
Current liabilities		
Payables	823	3,136
Borrowings	55	2,530
Provisions	–	1,844
Total current liabilities	878	7,510
Non-current liabilities		
Borrowings	5,687	21,559
Provisions	–	27
Total non-current liabilities	5,687	21,586
TOTAL LIABILITIES	6,565	29,096
Net assets	128,839	372,227
EQUITY		
Accumulated surplus	122,736	117,608
Revaluation reserves	6,103	254,619
Council equity interest	128,839	372,227
Total equity	128,839	372,227

NB. All amounts disclosed above are gross – that is, they include internal charges and recoveries made between the funds. Assets and liabilities shown in the water and sewer columns are restricted for use for these activities.

(1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(1,092)	(4.43)%	11.57%	4.82%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	24,674				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	23,163	76.33%	78.35%	81.31%	>60.00%
Total continuing operating revenue ¹	30,345				
3. Unrestricted current ratio					
Current assets less all external restrictions	29,675	5.42x	6.44x	6.08x	>1.50x
Current liabilities less specific purpose liabilities	5,474				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	7,376	1.80x	2.81x	2.45x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4,106				
5. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	37,698	21.11 mths	22.84 mths	21.00 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	1,786				

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

(2) Excludes impairment/revaluation decrements, net loss on sale of assets, and net loss on share of interests in joint ventures and associates

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Benchmark
	2019	2018	2019	2018	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(18.31)%	0.59%	(1.68)%	13.10%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹					
2. Own source operating revenue ratio					
Total continuing operating revenue excluding capital grants and contributions ¹	62.97%	66.96%	78.41%	79.93%	>60.00%
Total continuing operating revenue ¹					
3. Unrestricted current ratio					
Current assets less all external restrictions	6.05x	9.38x	4.03x	5.94x	>1.50x
Current liabilities less specific purpose liabilities					
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	2.33x	16.93x	1.79x	2.61x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)					
5. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	14.52 mths	18.22 mths	22.60 mths	23.88 mths	>3.00 mths
Payments from cash flow of operating and financing activities					

(1) - (2) Refer to Notes at Note 28a above.

(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

General Purpose Financial Statements
for the year ended 30 June 2019

Independent Auditor's Report

Please upift Council's Audit Report PDF (opinion) for inclusion in the GPFS report (via the Home screen).

General Purpose Financial Statements
for the year ended 30 June 2019

Independent Auditor's Report

Please upift Council's Audit Report PDF (commentary) for inclusion in the GPFS report (via the Home screen).

Rous County Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019



Special Purpose Financial Statements

for the year ended 30 June 2019

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Background

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

Essentially, the principle is that government businesses, whether Commonwealth, state or local, should operate without net competitive advantages over other businesses as a result of their public ownership.

- iii. For Council, the principle of competitive neutrality and public reporting applies only to declared business activities.

These include **(a)** those activities classified by the Australian Bureau of Statistics as business activities being water supply, sewerage services, abattoirs, gas production and reticulation, and **(b)** those activities with a turnover of more than \$2 million that Council has formally declared as a business activity (defined as Category 1 activities).

- iv. In preparing these financial statements for Council's self-classified Category 1 businesses and ABS-defined activities, councils must **(a)** adopt a corporatisation model and **(b)** apply full cost attribution including tax-equivalent regime payments and debt guarantee fees (where the business benefits from Council's borrowing position by comparison with commercial rates).

Rous County Council

Special Purpose Financial Statements for the year ending 30 June 2019

Statement by councillors and management made pursuant to the Local Government Code of Accounting Practice and Financial Reporting

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

- The NSW Government Policy Statement *Application of National Competition Policy to Local Government*
- Office of Local Government Guidelines *Pricing & Costing for Council Businesses: A Guide to Competitive Neutrality*
- The Local Government Code of Accounting Practice and Financial Reporting
- The NSW Office of Water *Best-Practice Management of Water Supply and Sewerage Guidelines*.

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

- presents fairly the operating result and financial position for each of Council's declared Business Activities for the year, and
- accord with Council's accounting and other records.
- Present overhead reallocation charges to the water business as fair and reasonable.

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

Signed in accordance with a resolution of Council made on 22 October 2019.



Cr Keith Williams
Chair

22 October 2019



Cr Sharon Cadwallader
Deputy Chair

22 October 2019



Phillip Rudd
General Manager

22 October 2019



Guy Bezrouchko
Responsible Accounting Officer

22 October 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
User charges	19,500	18,612
Interest	872	722
Grants and contributions provided for non-capital purposes	–	48
Other income	222	3,124
Total income from continuing operations	20,594	22,506
Expenses from continuing operations		
Employee benefits and on-costs	6,018	5,819
Borrowing costs	1,673	1,831
Materials and contracts	6,745	5,267
Depreciation, amortisation and impairment	5,906	5,763
Loss on sale of assets	2,164	1,191
Other expenses	597	218
Total expenses from continuing operations	23,103	20,089
Surplus (deficit) from continuing operations before capital amounts	(2,509)	2,417
Grants and contributions provided for capital purposes	5,671	5,592
Surplus (deficit) from continuing operations after capital amounts	3,162	8,009
Surplus (deficit) from all operations before tax	3,162	8,009
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(725)
SURPLUS (DEFICIT) AFTER TAX	3,162	7,284
Plus accumulated surplus	114,809	106,875
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	725
Less:		
– Surplus dividend paid	(392)	(75)
Closing accumulated surplus	117,579	114,809
Return on capital %	(0.2)%	1.2%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	3,162	7,284
Less: capital grants and contributions (excluding developer contributions)	–	(612)
Surplus for dividend calculation purposes	3,162	6,672
Potential dividend calculated from surplus	1,581	3,336

Income Statement – Land

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Profit from the sale of assets	713	–
Total income from continuing operations	<u>713</u>	<u>–</u>
Expenses from continuing operations		
Calculated taxation equivalents	28	28
Total expenses from continuing operations	<u>28</u>	<u>28</u>
Surplus (deficit) from continuing operations before capital amounts	685	(28)
Surplus (deficit) from continuing operations after capital amounts	<u>685</u>	<u>(28)</u>
Surplus (deficit) from all operations before tax	685	(28)
SURPLUS (DEFICIT) AFTER TAX	<u>685</u>	<u>(28)</u>
Plus accumulated surplus	(1,206)	(1,206)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	28	28
Closing accumulated surplus	<u>(493)</u>	<u>(1,206)</u>
Subsidy from Council	–	28

Income Statement – Commercial Property

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Interest	4	34
Other income	213	233
Total income from continuing operations	<u>217</u>	<u>267</u>
Expenses from continuing operations		
Materials and contracts	109	207
Depreciation, amortisation and impairment	442	63
Calculated taxation equivalents	3	3
Other expenses	70	38
Total expenses from continuing operations	<u>624</u>	<u>311</u>
Surplus (deficit) from continuing operations before capital amounts	(407)	(44)
Surplus (deficit) from continuing operations after capital amounts	<u>(407)</u>	<u>(44)</u>
Surplus (deficit) from all operations before tax	<u>(407)</u>	<u>(44)</u>
SURPLUS (DEFICIT) AFTER TAX	<u>(407)</u>	<u>(44)</u>
Plus accumulated surplus	2,196	2,162
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	3	3
Add:		
– Subsidy paid/contribution to operations	392	75
Closing accumulated surplus	<u>2,184</u>	<u>2,196</u>
Subsidy from Council	407	44

Statement of Financial Position – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	2,310	1,993
Investments	24,618	28,978
Receivables	1,529	1,039
Inventories	304	310
Other	210	258
Total current assets	28,971	32,578
Non-current assets		
Investments	6,000	–
Receivables	3,901	6,385
Inventories	226	–
Infrastructure, property, plant and equipment	361,860	354,484
Intangible assets	365	404
Total non-current assets	372,352	361,273
TOTAL ASSETS	401,323	393,851
LIABILITIES		
Current liabilities		
Payables	3,136	1,822
Borrowings	2,530	2,374
Provisions	1,844	1,779
Total current liabilities	7,510	5,975
Non-current liabilities		
Borrowings	21,559	24,090
Provisions	27	60
Total non-current liabilities	21,586	24,150
TOTAL LIABILITIES	29,096	30,125
NET ASSETS	372,227	363,726
EQUITY		
Accumulated surplus	117,608	114,809
Revaluation reserves	254,619	248,917
TOTAL EQUITY	372,227	363,726

Statement of Financial Position – Land

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Receivables	255	254
Inventories	98	–
Total current assets	353	254
Non-current assets		
Inventories	5,141	5,127
Total non-current assets	5,141	5,127
TOTAL ASSETS	5,494	5,381
LIABILITIES		
Current liabilities		
Payables	301	203
Total current liabilities	301	203
Non-current liabilities		
Borrowings	5,686	6,384
Total non-current liabilities	5,686	6,384
TOTAL LIABILITIES	5,987	6,587
NET ASSETS	(493)	(1,206)
EQUITY		
Accumulated surplus	(493)	(1,206)
TOTAL EQUITY	(493)	(1,206)

Statement of Financial Position – Commercial Property

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Cash and cash equivalents	133	78
Investments	1,038	1,131
Receivables	5	17
Other	284	260
Total current assets	1,460	1,486
Non-current assets		
Investment property	740	710
Total non-current assets	740	710
TOTAL ASSETS	2,200	2,196
LIABILITIES		
Current liabilities		
Payables	16	–
Total current liabilities	16	–
TOTAL LIABILITIES	16	–
NET ASSETS	2,184	2,196
EQUITY		
Accumulated surplus	2,184	2,196
TOTAL EQUITY	2,184	2,196

Rous County Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies

A statement summarising the supplemental accounting policies adopted in the preparation of the Special Purpose Financial Statements (SPFS) for National Competition Policy (NCP) reporting purposes follows.

These financial statements are SPFS prepared for use by Council and the Office of Local Government. For the purposes of these statements, the Council is a non-reporting not-for-profit entity.

The figures presented in these Special Purpose Financial Statements have been prepared in accordance with the recognition and measurement criteria of relevant Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The disclosures in these Special Purpose Financial Statements have been prepared in accordance with the Local Government Act 1993 (NSW), the *Local Government (General) Regulation 2005*, and the Local Government Code of Accounting Practice and Financial Reporting.

The statements are prepared on an accruals basis. They are based on historic costs and do not take into account changing money values or, except where specifically stated, current values of non-current assets. Certain taxes and other costs, appropriately described, have been imputed for the purposes of the National Competition Policy.

The Statement of Financial Position includes notional assets/liabilities receivable from/payable to Council's general fund. These balances reflect a notional intra-entity funding arrangement with the declared business activities.

National Competition Policy

Council has adopted the principle of 'competitive neutrality' in its business activities as part of the National Competition Policy which is being applied throughout Australia at all levels of government.

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

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

The pricing and costing guidelines outline the process for identifying and allocating costs to activities and provide a standard for disclosure requirements.

These disclosures are reflected in Council's pricing and/or financial reporting systems and include taxation equivalents, Council subsidies, return on investments (rate of return), and dividends paid.

Declared business activities

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

Category 1

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

Water

Provision of safe drinking water to the Constituent Councils and their consumers.

Category 2

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

Land development

Residential land development incorporating low impact environmental features including water and energy.

Commercial properties

Incorporates commercial rental properties at Carrington Street, Conway Street and subleases at Molesworth Street.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Monetary amounts

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

(i) Taxation equivalent charges

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

However, where Council does not pay some taxes which are generally paid by private sector businesses, such as income tax, these equivalent tax payments have been applied to all Council-nominated business activities and are reflected in Special Purpose Financial Statements.

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

Notional rate applied (%)

Corporate income tax rate – 27.5%

Land tax – the first \$692,000 of combined land values attracts 0%. For the combined land values in excess of \$692,001 up to \$4,231,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,231,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$850,000.

In accordance with the Department of Industry (DoI) – Water guidelines, a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

The payment of taxation equivalent charges, referred to in the DoI – Water guidelines as a 'dividend for taxation equivalent', may be applied for any purpose allowed under the *Local Government Act, 1993*.

Achievement of substantial compliance to the DoI – Water guidelines is not a prerequisite for the payment of the tax equivalent charges, however the payment must not exceed \$3 per assessment.

Income tax

An income tax equivalent has been applied on the profits of the business activities.

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

Accordingly, the return on capital invested is set at a pre-tax level - gain/(loss) from ordinary activities before capital amounts, as would be applied by a private sector competitor. That is, it should include a provision equivalent to the corporate income tax rate, currently 27.5%.

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

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

The rate applied of 27.5% is not the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

Local government rates and charges

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

Notes to the Special Purpose Financial Statements for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

Loan and debt guarantee fees

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

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

(ii) Subsidies

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

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

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

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

(iii) Return on investments (rate of return)

The NCP policy statement requires that councils with Category 1 businesses 'would be expected to generate a return on capital funds employed that is comparable to rates of return for private businesses operating in a similar field'.

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 1.32% at 30/6/19.

(iv) Dividends

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

Local government water supply businesses are permitted to pay an annual dividend from its water supply business surplus.

Each dividend must be calculated and approved in accordance with the Department of Industry – Water guidelines and must not exceed:

- 50% of this surplus in any one year, or
- the number of water supply assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Department of Industry – Water guidelines a Dividend Payment form, Statement of Compliance, Unqualified Independent Financial Audit Report and Compliance Audit Report are required to be submitted to the Department of Industry – Water.

Special Purpose Financial Statements
for the year ended 30 June 2019

Please upift Council's Audit Report PDF (opinion) for inclusion in the SPFS report (via the Home screen).

Rous County Council

SPECIAL SCHEDULES
for the year ended 30 June 2019



Special Schedules

for the year ended 30 June 2019

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Special Schedules

Report on Infrastructure Assets - Values

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Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Council works depot	178	100	62	301	811	1,812	20.0%	35.0%	43.0%	2.0%	0.0%
	Council houses	55	400	96	39	1,325	3,041	0.0%	30.0%	44.0%	26.0%	0.0%
	Sub-total	233	500	158	340	2,136	4,853	7.5%	31.9%	43.6%	17.0%	0.0%
Water supply network	Water supply network	1,950	9,725	1,632	1,157	334,163	460,397	31.0%	48.0%	12.0%	9.0%	0.0%
	Sub-total	1,950	9,725	1,632	1,157	334,163	460,397	31.0%	48.0%	12.0%	9.0%	0.0%
Water supply land improvements	Land Improvements – Water assets	38	26	459	366	4,797	5,621	23.0%	42.0%	29.0%	6.0%	0.0%
	Sub-total	38	26	459	366	4,797	5,621	23.0%	42.0%	29.0%	6.0%	0.0%
Flood mitigation network	Flood mitigation	370	208	1,619	851	122,412	134,817	10.0%	63.0%	22.0%	5.0%	0.0%
	Sub-total	370	208	1,619	851	122,412	134,817	10.0%	63.0%	22.0%	5.0%	0.0%
TOTAL - ALL ASSETS		2,591	10,459	3,868	2,714	463,508	605,688	26.1%	51.2%	14.6%	8.1%	0.0%

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

Infrastructure asset condition assessment 'key'

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018	2017	Benchmark
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	7,631	127.76%	19.78%	–	>=100.00%
Depreciation, amortisation and impairment	5,973				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	2,591	0.56%	0.58%	–	<2.00%
Net carrying amount of infrastructure assets	461,134				
Asset maintenance ratio					
Actual asset maintenance	2,714	70.17%	84.06%	–	>100.00%
Required asset maintenance	3,868				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	10,459	1.73%	1.42%	–	
Gross replacement cost	605,688				

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

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	General fund		Water fund		Benchmark
	2019	2018	2019	2018	
Infrastructure asset performance indicators (by fund)					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²					
Depreciation, amortisation and impairment	4.43%	9.02%	149.10%	21.73%	>=100.00%
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard					
Net carrying amount of infrastructure assets	0.48%	0.52%	0.59%	0.60%	<2.00%
Asset maintenance ratio					
Actual asset maintenance					
Required asset maintenance	67.02%	63.61%	72.84%	94.58%	>100.00%
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council					
Gross replacement cost	0.51%	0.51%	2.09%	1.69%	

(1) Excludes Work In Progress (WIP)

(2) Asset renewals represent the replacement and/or refurbishment of existing assets to an equivalent capacity/performance as opposed to the acquisition of new assets (or the refurbishment of old assets) that increases capacity/performance.