

Rous County Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



General Purpose Financial Statements

for the year ended 30 June 2020

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General Purpose Financial Statements
for the year ended 30 June 2020

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 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 21 October 2020.



Keith Williams
Chairperson
21 October 2020



Sharon Cadwallader
Deputy Chairperson
21 October 2020



Phillip Rudd
General Manager
21 October 2020



Guy Bezrouchko
Responsible Accounting Officer
21 October 2020

Statement of Comprehensive Income

for the year ended 30 June 2020

\$ '000	Notes	2020	2019
Net operating result for the year (as per Income Statement)		2,384	2,637
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10	8,795	7,660
Total items which will not be reclassified subsequently to the operating result		8,795	7,660
Total other comprehensive income for the year		8,795	7,660
Total comprehensive income for the year		11,179	10,297
Total comprehensive income attributable to Council		11,179	10,297

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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

Statement of Financial Position

as at 30 June 2020

\$ '000	Notes	2020	2019
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	4,693	2,698
Investments	7(b)	29,000	29,000
Receivables	8	2,552	2,414
Inventories	9a	1,504	464
Other	9b	556	502
Total current assets		<u>38,305</u>	<u>35,078</u>
Non-current assets			
Investments	7(b)	1,500	6,000
Receivables	8	46	13
Inventories	9a	1,509	1,417
Infrastructure, property, plant and equipment	10	493,921	485,272
Investment property	11	790	740
Intangible Assets	12	237	369
Right of use assets	14a	562	–
Total non-current assets		<u>498,565</u>	<u>493,811</u>
Total assets		<u>536,870</u>	<u>528,889</u>
LIABILITIES			
Current liabilities			
Payables	15	2,386	3,959
Contract liabilities	13	84	–
Lease liabilities	14b	312	–
Borrowings	15	2,701	2,585
Provisions	16	2,069	1,845
Total current liabilities		<u>7,552</u>	<u>8,389</u>
Non-current liabilities			
Lease liabilities	14b	347	–
Borrowings	15	18,858	21,560
Provisions	16	21	27
Total non-current liabilities		<u>19,226</u>	<u>21,587</u>
Total liabilities		<u>26,778</u>	<u>29,976</u>
Net assets		<u>510,092</u>	<u>498,913</u>
EQUITY			
Accumulated surplus	17	240,575	238,191
Revaluation reserves	17	269,517	260,722
Council equity interest		<u>510,092</u>	<u>498,913</u>
Total equity		<u>510,092</u>	<u>498,913</u>

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

\$ '000	Notes	as at 30/06/20			as at 30/06/19		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		238,191	260,722	498,913	235,554	253,062	488,616
Changes due to AASB 1058 and AASB 15 adoption	17	–	–	–	–	–	–
Changes due to AASB 16 adoption	17	–	–	–	–	–	–
Restated opening balance		238,191	260,722	498,913	235,554	253,062	488,616
Net operating result for the year		2,384	–	2,384	2,637	–	2,637
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10	–	8,795	8,795	–	7,660	7,660
Other comprehensive income		–	8,795	8,795	–	7,660	7,660
Total comprehensive income		2,384	8,795	11,179	2,637	7,660	10,297
Equity – balance at end of the reporting period		240,575	269,517	510,092	238,191	260,722	498,913

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

<i>Original unaudited budget 2020</i>	<i>\$ '000</i>	Notes	<i>Actual 2020</i>	<i>Actual 2019</i>
Cash flows from operating activities				
Receipts:				
19,650	User charges and fees		20,687	19,250
628	Investment and interest revenue received		1,007	895
4,356	Grants and contributions		5,567	7,027
2,682	Other		2,897	2,647
Payments:				
(8,730)	Employee benefits and on-costs		(8,146)	(7,241)
(8,140)	Materials and contracts		(9,495)	(8,562)
(1,588)	Borrowing costs		(1,577)	(1,709)
(784)	Other		(1,008)	(1,490)
8,074	Net cash provided (or used in) operating activities	18b	9,932	10,817
Cash flows from investing activities				
Receipts:				
–	Sale of investment securities		47,000	30,950
3,250	Sale of real estate assets		–	2,654
2	Sale of infrastructure, property, plant and equipment		162	141
Payments:				
–	Purchase of investment securities		(42,500)	(32,000)
–	Purchase of investment property		–	(410)
(11,794)	Purchase of infrastructure, property, plant and equipment		(8,636)	(7,288)
(2,884)	Purchase of real estate assets		(1,121)	(1,983)
–	Purchase of intangible assets		(6)	(91)
(11,426)	Net cash provided (or used in) investing activities		(5,101)	(8,027)
Cash flows from financing activities				
Payments:				
(2,548)	Repayment of borrowings and advances		(2,586)	(2,426)
–	Lease liabilities (principal repayments)		(250)	–
(2,548)	Net cash flow provided (used in) financing activities		(2,836)	(2,426)
(5,900)	Net increase/(decrease) in cash and cash equivalents		1,995	364
2,500	Plus: cash and cash equivalents – beginning of year	18a	2,698	2,334
(3,400)	Cash and cash equivalents – end of the year	18a	4,693	2,698
28,985	plus: Investments on hand – end of year	7(b)	30,500	35,000
25,585	Total cash, cash equivalents and investments		35,193	37,698

The Council has not restated comparatives when initially applying AASB 1058 *Income of Not-for-Profit Entities*, AASB 15 *Revenue from Contracts with Customers* and AASB 16 *Leases*. The comparative information has been prepared under AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB 1004 *Contributions*, AASB 117 *Leases* and related Accounting Interpretations.

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 2020

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Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 21 October 2020. Council has the power to amend and reissue these financial statements in cases where critical information is received from public submissions or where the OLG directs Council to amend the 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.

(a) 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.

(b) 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 11
- (ii) estimated fair values of infrastructure, property, plant and equipment – refer Note 10
- (iii) employee benefit provisions – refer Note 16.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 1. Basis of preparation (continued)

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.

Volunteer services

Council has no volunteer services.

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 (ie. pronouncements) have been published by the Australian Accounting Standards Board that are not mandatory for the 30 June 2020 reporting period.

Council has elected not to apply any of these pronouncements in these financial statements before their operative dates.

As at the date of authorisation of these financial statements Council does not consider that any of these new (and still to be applied) standards and interpretations are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

New accounting standards adopted during the year

During the year Council adopted the following accounting standards and interpretations (as issued by the Australian Accounting Standards Board) which were mandatorily effective from 1 July 2019:

- AASB 16 Leases
- AASB 15 Revenue from contracts with customers and associated amending standards.
- AASB 1058 Income of Not-for-profit entities

Further information on the newly adopted standards which had a material impact on Council's reported financial position, financial performance and/or associated financial statement disclosures can be found at Note 17.

Notes to the Financial Statements

for the year ended 30 June 2020

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	<i>Income from continuing operations</i>		<i>Expenses from continuing operations</i>		<i>Operating result from continuing operations</i>		<i>Grants included in income from continuing operations</i>		<i>Carrying amount of assets</i>	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Functions or activities										
Bulk Water Supply	22,308	22,963	20,243	19,986	2,065	2,977	–	–	386,024	380,976
Commerical Property	274	217	321	622	(47)	(405)	–	–	4,847	7,222
Fleet Operations	88	141	50	181	38	(40)	–	–	1,782	2,046
Flood Mitigation	1,399	1,545	2,320	2,686	(921)	(1,141)	530	561	129,540	125,142
Retail Water Supply	3,772	3,161	2,487	2,224	1,285	937	–	–	12,663	10,936
Richmond Water Laboratories	922	815	851	737	71	78	–	–	790	674
Weeds Biosecurity	1,400	1,503	1,507	1,272	(107)	231	574	842	1,224	1,893
Total functions and activities	30,163	30,345	27,779	27,708	2,384	2,637	1,104	1,403	536,870	528,889

Notes to the Financial Statements

for the year ended 30 June 2020

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 2020

Note 3. Revenue from continuing operations

\$ '000	AASB	2020	2019
(a) User charges and fees			
Specific user charges			
(per s.502 - specific 'actual use' charges)			
Water supply services	15 (2)	20,737	19,468
Total specific user charges		20,737	19,468
Other user charges and fees			
(i) Fees and charges – statutory and regulatory functions (per s.608)			
Private works – section 67	15 (1)	2	–
Regulatory/ statutory fees	1058 (1)	46	32
Total fees and charges – statutory/regulatory		48	32
TOTAL USER CHARGES AND FEES		20,785	19,500

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

15 (2) indicates income recognised under AASB 15 “over time”,

1058 (1) indicates income recognised under AASB 1058 “at a point in time”.

Accounting policy for user charges and fees

Revenue arising from user charges and fees is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

The performance obligation relates to the specific services which are provided to the customers and generally the payment terms are within 30 days of the provision of the service. There is no material obligation for Council in relation to refunds or returns.

Prepaid filling station keys granted by Council are all either short-term or low value and all revenue is recognised at the time that the key is granted.

2019 accounting policy

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

\$ '000	AASB	2020	2019
(b) Other revenues			
Rental income – investment property		–	54
Rental income – other council properties (2019 only)		–	176
Assessment on other councils	1058 (1)	1,491	1,457
Water testing	15 (1)	913	807
Other	1058 (1)	210	198
TOTAL OTHER REVENUE		2,614	2,692

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue:

15 (1) indicates income recognised under AASB 15 “at a point in time”,

1058 (1) indicates income recognised under AASB 1058 “at a point in time”.

Accounting policy for other revenue

Where the revenue relates to a contract with customer, the revenue is recognised when or as the performance obligation is completed and the customer receives the benefit of the goods / services being provided.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Where the revenue relates to a contract which is not enforceable or does not contain sufficiently specific performance obligations then revenue is recognised when an unconditional right to a receivable arises or the cash is received, which is earlier.

2019 accounting policy:

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.

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	AASB	<i>Operating</i> 2020	<i>Operating</i> 2019	<i>Capital</i> 2020	<i>Capital</i> 2019
(c) Grants					
Specific purpose					
Weed biosecurity	1058 (1)	574	681	–	–
Flood mitigation	1058 (1)	530	722	–	–
Total specific purpose		1,104	1,403	–	–
Total grants		1,104	1,403	–	–
Grant revenue is attributable to:					
– State funding		1,104	1,403	–	–
		1,104	1,403	–	–

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue: **1058 (1)** indicates income recognised under AASB 1058 “at a point in time”.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	Notes	AASB	Operating 2020	Operating 2019	Capital 2020	Capital 2019
(d) Contributions						
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):						
Cash contributions						
S 64 – water supply contributions		1058 (1)	–	–	4,403	5,564
Total developer contributions – cash			–	–	4,403	5,564
Total developer contributions	26		–	–	4,403	5,564
Other contributions:						
Cash contributions						
Bulk supply network		1058 (1)	47	6	8	107
Flood mitigation		1058 (1)	135	85	–	–
Weed biosecurity		1058 (1)	2	17	–	–
Total other contributions – cash			184	108	8	107
Total other contributions			184	108	8	107
Total contributions			184	108	4,411	5,671
TOTAL GRANTS AND CONTRIBUTIONS			1,288	1,511	4,411	5,671

The **AASB** notation (above) identifies the revenue recognition pattern for material items of Council revenue: **1058 (1)** indicates income recognised under AASB 1058 “at a point in time”.

Accounting policy for grants and contributions**Accounting policy from 1 July 2019****Grant income under AASB 15**

Where grant income arises from an agreement which is enforceable and contains sufficiently specific performance obligations then the revenue are recognised when control of each performance obligations is satisfied.

The performance obligations are varied based on the agreement. Payment terms vary depending on the terms of the grant, cash is received upfront for some grants and on the achievement of certain payment milestones for others.

Each performance obligation is considered to ensure that the revenue recognition reflects the transfer of control and within grant agreements there may be some performance obligations where control transfers at a point in time and others which have continuous transfer of control over the life of the contract.

Where control is transferred over time, generally the input methods being either costs or time incurred are deemed to be the most appropriate methods to reflect the transfer of benefit.

Grant income

Assets arising from grants in the scope of AASB 1058 is recognised at the assets fair value when the asset is received. Council considers whether there are any related liability or equity items associated with the asset which are recognised in accordance with the relevant accounting standard.

Once the assets and liabilities have been recognised then income is recognised for any remaining asset value at the time that the asset is received

Notes to the Financial Statements

for the year ended 30 June 2020

Note 3. Revenue from continuing operations (continued)

Capital grants

Capital grants received to enable Council to acquire or construct an item of infrastructure, property, plant and equipment to identified specifications which will be under Council's control and which is enforceable are recognised as revenue as and when the obligation to construct or purchase is completed.

For construction projects, this is generally as the construction progresses in accordance with costs incurred since this is deemed to be the most appropriate measure of the completeness of the construction project as there is no profit margin.

For acquisitions of assets, the revenue is recognised when the asset is acquired and controlled by the Council.

Contributions

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

Accounting policy prior to 1 July 2019

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

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.

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 2020

Note 3. Revenue from continuing operations (continued)

\$ '000	2020	2019
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(e) Unspent grants and contributions – external restrictions

Certain grants and contributions are obtained by Council on condition that they be spent in a specified manner due to externally imposed restrictions.

Operating grants

Unexpended at the close of the previous reporting period	280	398
Add: operating grants recognised as income in the current period but not yet spent (2019 only)	–	90
Less: operating grants recognised in a previous reporting period now spent (2019 only)	–	(208)
Less: operating grants received in a previous reporting period now spent and recognised as income	(245)	–
Unexpended and held as externally restricted assets (operating grants)	35	280

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	7	14
Less: capital grants recognised in a previous reporting period now spent (2019 only)	–	(7)
Less: capital grants received in a previous reporting period now spent and recognised as income	(7)	–
Unexpended and held as externally restricted assets (capital grants)	–	7

Remaining funds from grant received for flood damage May 2009.

Contributions

Unexpended at the close of the previous reporting period	119	75
Add: contributions recognised as income in the current period but not yet spent	86	84
Less: contributions recognised in a previous reporting period now spent	(53)	(40)
Unexpended and held as externally restricted assets (contributions)	152	119

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 2020

Note 4. Interest and investment income

<u>\$ '000</u>	<u>2020</u>	<u>2019</u>
Interest on financial assets measured at amortised cost		
– Overdue user fees and charges	5	3
– Cash and investments	794	968
<u>Total Interest and investment income</u>	<u>799</u>	<u>971</u>

Accounting policy for interest and investment revenue

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations

\$ '000	2020	2019
(a) Employee benefits and on-costs		
Salaries and wages	6,380	5,417
Employee leave entitlements (ELE)	1,341	1,189
Superannuation	732	669
Workers' compensation insurance	113	97
Fringe benefit tax (FBT)	33	32
Payroll tax	136	252
Training costs (other than salaries and wages)	215	238
Other	83	111
Total employee costs	9,033	8,005
Less: capitalised costs	(638)	(545)
TOTAL EMPLOYEE COSTS EXPENSED	8,395	7,460

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 20 for more information.

\$ '000	2020	2019
(b) Borrowing costs		
(i) Interest bearing liability costs		
Interest on leases	26	–
Interest on loans	1,520	1,680
Total interest bearing liability costs	1,546	1,680
Total interest bearing liability costs expensed	1,546	1,680
TOTAL BORROWING COSTS EXPENSED	1,546	1,680

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 as incurred.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(c) Materials and contracts		
Raw materials and consumables	4,959	5,060
Contractor and consultancy costs	4,735	3,615
Auditors remuneration ²	75	63
Legal expenses:		
– Other	8	5
Expenses from leases of low value assets (2020 only)	107	–
Operating leases expense (2019 only):		
– Operating lease rentals: minimum lease payments ¹	–	233
TOTAL MATERIALS AND CONTRACTS	9,884	8,976

Accounting policy for materials and contracts

Expenses are recorded on an accruals basis as the council receives the goods or services.

Operating leases (2019 only)

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
	–	233

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	71	63
Remuneration for audit and other assurance services	71	63

Total Auditor-General remuneration

	71	63
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Non NSW Auditor-General audit firms**(i) Audit and other assurance services**

Other audit and assurance services	4	–
Remuneration for audit and other assurance services	4	–

Total remuneration of non NSW Auditor-General audit firms

	4	–
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Total Auditor remuneration

	75	63
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Notes to the Financial Statements

for the year ended 30 June 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	Notes	2020	2019
(d) Depreciation, amortisation and impairment of non-financial assets			
Depreciation and amortisation			
Plant and equipment		502	493
Office equipment		148	155
Furniture and fittings		30	30
Land improvements (depreciable)		63	60
Infrastructure:			
– Buildings		129	123
– Water supply network		5,252	5,032
– Flood mitigation assets		766	758
Right of use assets		259	–
Intangible assets	12	138	137
Total gross depreciation and amortisation costs		<u>7,287</u>	<u>6,788</u>
Total depreciation and amortisation costs		<u>7,287</u>	<u>6,788</u>
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT FOR INTANGIBLES AND IPP&E</u>		<u>7,287</u>	<u>6,788</u>

Accounting policy for depreciation, amortisation and impairment expenses of non-financial assets**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 10 for IPPE assets and Note 12 for intangible assets and Note 14 for right of use 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 2020

Note 5. Expenses from continuing operations (continued)

\$ '000	2020	2019
(e) Other expenses		
Advertising	44	14
Bank fees	8	7
Chairperson's fee	17	16
Councillors' fees	81	79
Councillors' (incl. Chairperson) expenses	18	17
Contributions and donations	15	5
Electricity	34	36
Insurance	216	242
Internal audit	37	52
Postage	4	4
Printing and stationery	10	93
Subscriptions and publications	39	48
Telephone	49	85
Water billing and collection	59	51
Other	35	113
Total other expenses	666	862
TOTAL OTHER EXPENSES	666	862

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 2020

Note 6. Gain or loss from disposal of assets

\$ '000	Notes	2020	2019
Property (excl. investment property)			
Proceeds from disposal – property		–	–
Less: carrying amount of property assets sold/written off		–	(34)
Net gain/(loss) on disposal		–	(34)
Infrastructure, plant and equipment			
	10		
Proceeds from disposal – infrastructure, plant and equipment		162	141
Less: carrying amount of infrastructure, plant and equipment assets sold/written off		(163)	(2,382)
Net gain/(loss) on disposal		(1)	(2,241)
Real estate assets held for sale			
	9		
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			
	7(b)		
Proceeds from disposal/redemptions/maturities – investments		47,000	30,950
Less: carrying amount of investments sold/redeemed/matured		(47,000)	(30,950)
Net gain/(loss) on disposal		–	–
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(1)</u>	<u>(1,562)</u>

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 2020

Note 7(a). Cash and cash equivalents

\$ '000	2020	2019
Cash and cash equivalents		
Cash on hand and at bank	157	76
Cash-equivalent assets		
– Deposits at call	4,536	2,622
Total cash and cash equivalents	4,693	2,698

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 7(b). Investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Investments				
Debt securities at amortised cost	29,000	1,500	29,000	6,000
Total Investments	29,000	1,500	29,000	6,000
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	33,693	1,500	31,698	6,000
Debt securities at amortised cost				
Long term deposits	29,000	1,500	29,000	6,000
Total	29,000	1,500	29,000	6,000

Accounting policy for investments

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(b). Investments (continued)

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 7(c). Restricted cash, cash equivalents and investments

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Total cash, cash equivalents and investments	33,693	1,500	31,698	6,000
attributable to:				
External restrictions	3,216	–	3,749	–
Internal restrictions	29,048	1,500	26,509	6,000
Unrestricted	1,429	–	1,440	–
	<u>33,693</u>	<u>1,500</u>	<u>31,698</u>	<u>6,000</u>

\$ '000	2020	2019
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Details of restrictions

External restrictions – other

Specific purpose unexpended grants (recognised as revenue) – general fund	35	287
Other	3,181	3,462

External restrictions – other

<u>3,216</u>	<u>3,749</u>
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Total external restrictions

<u>3,216</u>	<u>3,749</u>
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Internal restrictions

Flood Fund	805	1,243
Weeds Bio Fund	843	944
Retail Water Fund	2,602	1,817
Richmond Water Laboratories Fund	449	408
Commercial Property Fund	1,033	1,835
Fleet Fund	933	660
Bulk Fund - Building & structures	266	344
Bulk Fund - Assets & programs	17,729	20,150
Bulk Fund - Employees leave entitlement	2,090	1,871
Bulk Fund - Electricity	2,577	2,272
Bulk Fund - Office equipment & computers	1,126	871
Bulk Fund - Greenhouse gas abatement	95	94

Total internal restrictions

<u>30,548</u>	<u>32,509</u>
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TOTAL RESTRICTIONS

<u>33,764</u>	<u>36,258</u>
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Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Purpose				
User charges and fees	140	–	112	–
Accrued revenues				
– Interest on investments	318	–	511	13
– Other income accruals	1,221	–	527	–
Finance lease receivable	42	46	–	–
Government grants and subsidies	483	–	572	–
Sundry debtors	78	–	692	–
Other debtors	270	–	–	–
Total	2,552	46	2,414	13
TOTAL NET RECEIVABLES	2,552	46	2,414	13

Externally restricted receivables**Water supply**

– Other	–	–	69	–
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Other

Government grants and subsidies	483	–	572	–
Sec 64 headworks	1,307	–	499	–
Total external restrictions	1,790	–	1,140	–

Unrestricted receivables	762	46	1,274	13
TOTAL NET RECEIVABLES	2,552	46	2,414	13

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

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.

When considering the ECL for rates debtors, Council takes into account that unpaid rates represent a charge against the rateable property that will be recovered when the property is next sold. For non-rates debtors, Council uses the presumption that an asset which is more than 30 days past due has seen a significant increase in credit risk.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 8. Receivables (continued)

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.

Council uses the simplified approach for trade receivables where the expected lifetime credit losses are recognised on day 1.

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.

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements for the year ended 30 June 2020

Note 9. Inventories and other assets

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	1,127	1,283	98	1,191
Stores and materials	377	226	366	226
Total inventories at cost	1,504	1,509	464	1,417
TOTAL INVENTORIES	1,504	1,509	464	1,417
(b) Other assets				
Prepayments	296	–	218	–
Bonds and security deposits	260	–	284	–
TOTAL OTHER ASSETS	556	–	502	–

(i) Other disclosures

\$ '000	Notes	2020 Current	2020 Non-current	2019 Current	2019 Non-current
(a) Details for real estate development					
Residential – undeveloped		1,127	1,283	98	1,191
Total real estate for resale		1,127	1,283	98	1,191
(Valued at the lower of cost and net realisable value)					
Represented by:					
Development costs		1,127	1,283	98	1,191
Total costs		1,127	1,283	98	1,191
Total real estate for resale		1,127	1,283	98	1,191
Movements:					
Real estate assets at beginning of the year		98	1,191	–	1,247
– Purchases and other costs		1,029	92	2,039	(56)
– WDV of sales (expense)	6	–	–	(1,941)	–
Total real estate for resale		1,127	1,283	98	1,191

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 9. Inventories and other assets (continued)

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 2020

Note 10. Infrastructure, property, plant and equipment

\$ '000	as at 30/06/19			Asset movements during the reporting period						as at 30/06/20		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	9,099	–	9,099	5,056	2,146	–	–	(4,297)	–	12,004	–	12,004
Plant and equipment	4,154	(2,683)	1,471	–	291	(124)	(502)	19	–	4,232	(3,077)	1,155
Office equipment	1,780	(1,469)	311	–	106	(1)	(148)	–	–	1,809	(1,541)	268
Furniture and fittings	715	(338)	377	–	17	–	(30)	2	–	734	(368)	366
Land:												
– Operational land	10,506	–	10,506	–	–	–	–	–	–	10,506	–	10,506
– Non-depreciable land improvements	2,374	–	2,374	–	–	–	–	–	–	2,374	–	2,374
– Depreciable land improvements	3,247	(824)	2,423	–	–	–	(63)	–	–	3,247	(887)	2,360
Infrastructure:												
– Buildings	4,853	(2,717)	2,136	–	–	–	(129)	–	–	4,853	(2,846)	2,007
– Water supply network	460,397	(126,234)	334,163	656	–	(37)	(5,252)	2,832	3,128	468,146	(132,656)	335,490
– Flood mitigation	134,817	(12,405)	122,412	75	–	–	(766)	2	5,667	139,609	(12,218)	127,391
Total Infrastructure, property, plant and equipment	631,942	(146,670)	485,272	5,787	2,560	(162)	(6,890)	(1,442)	8,795	647,514	(153,593)	493,921

(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 2020

Note 10. Infrastructure, property, plant and equipment (continued)

\$ '000	as at 30/06/18			Asset movements during the reporting period						as at 30/06/19		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ⁽¹⁾	Additions new assets	Carrying value of disposals	Depreciation expense	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
Land improvements – non-depreciable	2,337	–	2,337	–	–	–	–	–	37	2,374	–	2,374
Land improvements – depreciable	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 2020

Note 10. 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 network assets are indexed at each reporting period in accordance with the Rates Reference Manual issued by Department of Planning, Industry and Environment – 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 at significantly below fair value, the assets are initially recognised at their fair value at acquisition date.

Land is not depreciated. 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
Water and sewer assets		Flood mitigation assets	
Dams and reservoirs	80 to 150	Drains - concrete	100
Bores	20 to 50	Culverts	100
Reticulation pipes: PVC	70 to 90	Flood control structures	20 to 80
Reticulation pipes: other	25 to 75	Bulk earthworks	Infinite
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 2020

Note 11. Investment properties

\$ '000	2020	2019
Owned investment property		
Investment property on hand at fair value	790	740
Total owned investment property	790	740

Reconciliation – owned investment property

Reconciliation of annual movement:

Opening balance	740	710
– Net gain/(loss) from fair value adjustments	50	(380)
– Subsequent expenditure	–	410
CLOSING BALANCE – OWNED INVESTMENT PROPERTY	790	740

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.

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 2020

Note 12. Intangible assets

Intangible assets are as follows:

\$ '000	2020	2019
Software		
Opening values at 1 July		
Gross book value	1,139	1,048
Accumulated amortisation	(770)	(633)
Net book value – opening balance	369	415
Movements for the year		
– Purchases	6	91
– Amortisation charges	(138)	(137)
Closing values at 30 June		
Gross book value	1,145	1,139
Accumulated amortisation	(908)	(770)
Total software – net book value	237	369
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u>	<u>237</u>	<u>369</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 2020

Note 13. Contract assets and liabilities

\$ '000	Notes	2020 Current	2020 Non-current
Contract liabilities			
Grants received prior to performance obligation being satisfied	(i)	64	–
Contributions received prior to performance obligation being satisfied		20	–
Total contract liabilities		84	–

Notes

(i) Council acts in an agency capacity for several grant projects.

Significant changes in contract assets and liabilities

The contract liabilities have arisen on adoption of AASB 15 and AASB 1058. Previously income received in advance was recognised for reciprocal contracts. The increase in a contract liability is primarily due to grants in the scope of AASB 15 and capital grants received by Council to acquire or construct assets which will be under Council's control. Previously, revenue was recognised on receipt of the funds.

Accounting policy for contract assets and liabilities

Where the amounts billed to customers are based on the achievement of various milestones established in the contract, the amounts recognised as revenue in a given period do not necessarily coincide with the amounts billed to or certified by the customer.

When a performance obligation is satisfied by transferring a promised good or service to the customer before the customer pays consideration or before the payment is due, Council presents the work in progress as a contract asset, unless the rights to that amount of consideration are unconditional, in which case Council recognises a receivable.

When an amount of consideration is received from a customer / fund provider prior to Council transferring a good or service to the customer, Council presents the funds which exceed revenue recognised as a contract liability.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases

The Council has applied AASB 16 using the modified retrospective (cumulative catch-up) method and therefore the comparative information has not been restated and continues to be reported under AASB 117 and related Interpretations.

(i) Council as a lessee

Council has leases over buildings. Information relating to the leases in place and associated balances and transactions is provided below.

Buildings

Council leases land and buildings for their corporate office; the lease is generally between 5 and 7 years and includes a renewal option to allow Council to renew for up to twice the noncancellable lease term at their discretion.

The building lease contains an annual pricing mechanism based on CPI movements at each anniversary of the lease inception.

Extension options

Council includes options in the building lease to provide flexibility and certainty to Council operations and reduce costs of moving premises; and the extension options are at Council's discretion.

At commencement date and each subsequent reporting date, Council assesses where it is reasonably certain that the extension options will be exercised.

There are \$1,565,000 in potential future lease payments which are not included in lease liabilities as Council has assessed that the exercise of the option is not reasonably certain.

<i>\$ '000</i>	<i>Administration building</i>	<i>Total</i>
Opening balance at 30 June 2019	–	–
Adoption of AASB 16 at 1 July 2019 – first time lease recognition	821	821
Depreciation charge	(259)	(259)
<u>Balance at 30 June 2020</u>	<u>562</u>	<u>562</u>

<i>\$ '000</i>	<i>2020 Current</i>	<i>2020 Non-current</i>
(b) Lease liabilities		
Lease liabilities	312	347
<u>TOTAL LEASE LIABILITIES</u>	<u>312</u>	<u>347</u>

(i) The maturity analysis

The maturity analysis of lease liabilities based on contractual undiscounted cash flows is shown in the table below:

<i>\$ '000</i>	<i>< 1 year</i>	<i>1 – 5 years</i>	<i>> 5 years</i>	<i>Total</i>	<i>Total per Statement of Financial Position</i>
Cash flows	312	364	–	676	659

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	2020
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(c) Income Statement

The amounts recognised in the Income Statement relating to leases where Council is a lessee are shown below:

Interest on lease liabilities	26
Interest income from sub-leasing right of use assets	6
Depreciation of right of use assets	259
Expenses relating to low-value leases	107
	398

(d) Statement of Cash Flows

Total cash outflow for leases	250
	250

Accounting policy

Accounting policies under AASB 16 – applicable from 1 July 2019

At inception of a contract, Council assesses whether a lease exists – i.e. does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration?

Council has elected not to separate non-lease components from lease components for any class of asset and has accounted for payments as a single component.

At the lease commencement, Council recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where Council believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises: the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration, less any lease incentives. The right-of-use is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of asset accounting policy.

The lease liability is initially recognised at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Council's incremental borrowing rate for a similar term with similar security is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured when there is a lease modification, or change in estimate of the lease term or index upon which the lease payments are based (e.g. CPI).

Where the lease liability is re-measured, the right-of-use asset is adjusted to reflect the re-measurement.

Exceptions to lease accounting

Council has applied the exceptions to lease accounting for both short-term leases (i.e. leases with a term of less than or equal to 12 months) and leases of low-value assets. Council recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

Accounting policy under AASB 117 and associated Accounting Interpretations (2019 only)

Refer to Note 5c and Note 15.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

Council as a lessor

(e) Operating leases

Council leases out a number of properties; these leases have been classified as operating leases for financial reporting purposes and the assets are included as investment property (refer note 11) and in the Statement of Financial Position.

The amounts recognised in the Income Statement relating to operating leases where Council is a lessor are shown below:

\$ '000	2020
(i) Operating lease income	
Investment properties	
Lease income (excluding variable lease payments not dependent on an index or rate)	68
Other lease income	
Other	148
Total income relating to operating leases	216
(ii) Operating lease expenses	
Investment properties	
Direct operating expenses that generated rental income	8
Direct operating expenses that did not generate rental income	4
Other leased assets	
Other	43
Total expenses relating to operating leases	55
(iii) Repairs and maintenance: investment property	
Other	9
Total repairs and maintenance: investment property	9
(iv) Maturity analysis of contractual lease income	
Maturity analysis of future lease income receivable showing the undiscounted lease payments to be received after reporting date for operating leases:	
< 1 year	80
1–2 years	51
Total undiscounted contractual lease income receivable	131

Notes to the Financial Statements

for the year ended 30 June 2020

Note 14. Leases (continued)

\$ '000	2020
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(f) Finance leases

Council has sub-leased a section of the Administration building and has classified this as finance leases since the sub-lease is for the remaining life of the Council's lease to the building.

(i) Maturity analysis of lease receivable

Maturity analysis of lease receivable showing the undiscounted lease payments to be received after reporting date for finance leases:

< 1 year	42
1–2 years	42
2–3 years	8
Total lease payments receivable	92
Unearned finance income	4
Net investment in the lease	88

Accounting policy

When Council is a lessor, the lease is classified as either an operating or finance lease at inception date, based on whether substantially all of the risks and rewards incidental to ownership of the asset have been transferred to the lessee. If the risks and rewards have been transferred then the lease is classified as a finance lease, otherwise it is an operating lease.

When Council has a sub-lease over an asset and is the intermediate lessor then the head lease and sub-lease are accounted for separately. The classification of the sub-lease is based on the right-of-use asset which arises from the head lease rather than the useful life of the underlying asset.

If the lease contains lease and non-lease components then the non-lease components are accounted for in accordance with AASB 15 *Revenue from Contracts with Customers*.

The lease income is recognised on a straight-line basis over the lease term.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Payables				
Goods and services	505	–	397	–
Capital creditors	593	–	2,321	–
Accrued expenses:				
– Borrowings	290	–	321	–
– Salaries and wages	215	–	186	–
Accrued expenses	777	–	296	–
Other	6	–	438	–
Total payables	2,386	–	3,959	–
Borrowings				
Loans – secured ¹	2,701	18,858	2,585	21,560
Total borrowings	2,701	18,858	2,585	21,560
TOTAL PAYABLES AND BORROWINGS	5,087	18,858	6,544	21,560

(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 21.

\$ '000	2020	2019
(a) Current payables and borrowings not anticipated to be settled within the next twelve months		
Total payables and borrowings	–	–

(b) Changes in liabilities arising from financing activities

\$ '000	as at 30/06/19		Non-cash changes				as at 30/06/20
	Opening Balance	Cash flows	Acquisition	Fair value changes	Acquisition due to change in accounting policy	Other non-cash movement	Closing balance
Loans – secured	24,145	(2,586)	–	–	–	–	21,559
Lease liabilities	–	(312)	–	–	945	26	659
TOTAL	24,145	(2,898)	–	–	945	26	22,218

\$ '000	as at 30/06/18		Non-cash changes			as at 30/06/19
	Opening Balance	Cash flows	Acquisition	Fair value changes	Other non-cash movement	Closing balance
Loans – secured	26,571	(2,426)	–	–	–	24,145
TOTAL	26,571	(2,426)	–	–	–	24,145

Notes to the Financial Statements

for the year ended 30 June 2020

Note 15. Payables and borrowings (continued)

\$ '000	2020	2019
(c) 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	110	150
Total financing arrangements	210	250
Undrawn facilities as at balance date:		
– Bank overdraft facilities	100	100
– Credit cards/purchase cards	110	150
Total undrawn financing arrangements	210	250

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

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 (2019 only)

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 2020

Note 16. Provisions

\$ '000	2020 Current	2020 Non-current	2019 Current	2019 Non-current
Provisions				
Employee benefits				
Annual leave	653	–	538	–
Long service leave	1,355	21	1,254	27
TIL	61	–	53	–
Sub-total – aggregate employee benefits	2,069	21	1,845	27
TOTAL PROVISIONS	2,069	21	1,845	27

\$ '000	2020	2019
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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	1,355	1,070
	1,355	1,070

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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 16. Provisions (continued)

On-costs

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 2020

Note 17. 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 ended 30 June 2020, the Council has adopted AASB 15 *Revenue from Contracts with Customers*, AASB 1058 *Income of Not-for-profit Entities* and AASB 16 *Leases* using the modified retrospective (cumulative catch-up) method and therefore the comparative information for the year ended 30 June 2019 has not been restated and continues to comply with AASB 111 *Construction Contracts*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 1004 *Contributions* and associated Accounting Interpretations.

All adjustments on adoption of AASB 15 and AASB 1058 have been taken to retained earnings at 1 July 2019.

The impacts of adopting these standards and associated transition disclosures are provided below:

AASB 15 and AASB 1058

The following approach has been applied on transition to AASB 15 and AASB 1058:

- Council has not adopted the completed contract expedient and therefore has not excluded revenue which was fully recognised in previous years in accordance with the former accounting standards and pronouncements
- Council has retrospectively restated contracts for modifications that occurred before 1 July 2019 unless such contract modification were minor.

Costs incurred in fulfilling customer contracts

Prior to adopting AASB 15 Council would recognise direct costs associated with fulfilling customer contracts as expenses when incurred, as they did not qualify for recognition as assets under any other accounting standards. Under AASB 15, as these costs relate directly to the contracts, generate resources used in satisfying the contracts, and are expected to be recovered, they are capitalised as 'costs to fulfil a contract' assets and released through profit and loss on the same basis as the revenue is recognised.

Transfer of control to a customer – over time or at a point in time

AASB 15 has specific criteria regarding whether control is transferred over time or at a point in time. The entity has reviewed its contracts and concluded that the criteria for recognition over time is not met in some circumstances. In such cases, revenue and related production costs will be recognised at the delivery of each separate performance obligation instead of over the contract using a single margin.

Principal v agent

Prior to adoption of AASB 15, the Council had assessed that they were a principal in transactions where another party was involved in providing the goods or services including pass-through grants.

Under AASB 15, the indicators of a principal have changed and there are now a number of performance obligations within grant agreements where the Council is acting as an agent since the only obligation is to transfer the funds to a third party. The result is that Council can only recognise the "commission" to which they are entitled rather than the gross revenue and expenses. There is no change to reported profit.

Licences

Council has reviewed the licences it grants and considers that all licences are either short-term or low value and elects to recognise all revenue from licences up-front rather than spreading them over the life of the licence.

Grants – operating

Under AASB 1004, most grant income was recognised as revenue on receipt. Under AASB 15, where an agreement is enforceable and contains sufficiently specific performance obligations, the revenue is either recognised over time as the work is performed, or recognised at the point in time that the control of the services passes to the customer.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Grants – capital

Under AASB 1004, most grant monies were recorded as revenue on receipt. Under AASB 1058, where Council has received assets (including cash) to acquire or construct a non-financial asset, the asset is to be controlled by Council and the contract is enforceable, then the asset is recognised as a contract liability on receipt and recorded as revenue as the performance obligation to acquire or construct the asset is completed.

Opening contract balances at 1 July 2019

Council had no contract assets or contract liabilities under AASB 15 and AASB 1058 as at 1 July 2019.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Comparison of financial statement line items under AASB 15 compared to previous standards for the current year

The following tables show the impact of adopting AASB 15 and AASB 1058 on the Council's financial statements for the year ended 30 June 2020.

Statement of Financial Position

\$ '000	<i>Carrying amount per Statement of Financial Position under AASB 15 and AASB 1058</i>	<i>Reclassific-ation</i>	<i>Remeasur-ement</i>	<i>Carrying amount under previous revenue standards</i>	<i>Notes</i>
Current liabilities					
Contract liabilities	84	–	(84)	–	(i)
Total current liabilities	7,552	–	(84)	7,468	
Net assets	510,092	–	84	510,176	
Equity					
Accumulated surplus	240,575	–	84	240,659	(i)
Revaluation reserves	269,517	–	–	269,517	
Council equity interest	510,092	–	84	510,176	
Total equity	510,092	–	84	510,176	

(i) Elimination of contract liability which arises under AASB 15 for funds received prior to the satisfaction of performance obligations, where Council acts in an Agency capacity.

Income Statement

\$ '000	<i>Income Statement and comprehensive income under AASB 15 and AASB 1058</i>	<i>Reclassific-ation</i>	<i>Remeasur-ement</i>	<i>Income Statement and comprehensive income under previous revenue standards</i>	<i>Notes</i>
Other income	1,288	–	84	1,372	(i)
Profit / (Loss) for the year	2,384	–	84	2,468	
Total comprehensive income	11,179	–	84	11,263	

(i) Difference in revenue between recognition on receipt under the old standards and as / when performance obligations are met under new standards.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)**AASB 16 Leases****Council as a lessee**

Under AASB 117, Council assessed whether leases were operating or finance leases, based on its assessment of whether the significant risks and rewards of ownership had been transferred to Council or remained with the lessor. Under AASB 16, there is no differentiation between finance and operating leases for the lessee and therefore all leases which meet the definition of a lease are recognised on the statement of financial position (except for short-term leases and leases of low-value assets).

Council has used the exception to lease accounting for short-term leases and leases of low-value assets, and the lease expense relating to these leases is recognised in the Income Statement on a straight-line basis.

Practical expedients used on transition

AASB 16 includes a number of practical expedients which can be used on transition. Council has used the following expedients:

- Contracts which had previously been assessed as not containing leases under AASB 117 were not re-assessed on transition to AASB 16.
- Lease liabilities have been discounted using the Council's incremental borrowing rate at 1 July 2019.
- Right-of-use assets at 1 July 2019 have been measured at an amount equal to the lease liability adjustment by the any prepaid or accrued lease payments.
- A single discount rate was applied to all leases with similar characteristics.
- The right-of-use asset was adjusted by the existing onerous lease provision (where relevant) at 30 June 2019 rather than perform impairment testing of the right-of-use asset.
- Excluded leases with an expiry date prior to 30 June 2020 from the Statement of Financial Position, and lease expenses for these leases have been recorded on a straight-line basis over the remaining term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Financial statement impact of adoption of AASB 16

Council has recognised right-of-use assets and lease liabilities of \$944,682 at 1 July 2019 for leases previously classified as operating leases, or leases that are significantly below market value which were previously off balance sheet.

The weighted average lessee's incremental borrowing rate applied to lease liabilities at 1 July 2019 was 4.17%.

\$ '000	Balance at 1 July 2019
Operating lease commitments at 30 June 2019 per Council financial statements	1,040
Reconciliation of lease liabilities recognised on adoption of AASB 16 Leases	
Operating lease commitments discounted using the incremental borrowing rate at 1 July 2019	945
Add:	
Finance lease liabilities	–
Less:	
Leases for low-value assets included in commitments note	95
Lease liabilities recognised at 1 July 2019	<u>1,040</u>

Council as a lessor

For the arrangements where Council is a lessor, there are no significant accounting policy changes on adoption of AASB 16 except for sub-leases, which have now been classified in relation to the right-of-use asset under the head lease rather than the underlying asset.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 17. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors (continued)

Statement of Financial Position

<i>\$ '000</i>	<i>Original Balance 1 July, 2019</i>	<i>Impact Increase/ (decrease)</i>	<i>Restated Balance 1 July, 2019</i>
Rights-of-use assets	–	821	821
Receivables	–	124	124
Total assets	–	945	945
Lease liabilities (current)	–	313	313
Lease liabilities (non-current)	–	632	632
Total liabilities	–	945	945
Accumulated surplus	–	–	–
Total equity	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 18. Statement of cash flow information

\$ '000	Notes	2020	2019
(a) Reconciliation of cash and cash equivalents			
Total cash and cash equivalents per Statement of Financial Position	7(a)	4,693	2,698
Balance as per the Statement of Cash Flows		4,693	2,698
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		2,384	2,637
Adjust for non-cash items:			
Depreciation and amortisation		7,287	6,788
Net losses/(gains) on disposal of assets		1	1,562
Losses/(gains) recognised on fair value re-measurements through the P&L:			
– Investment property		(50)	380
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(82)	(526)
Decrease/(increase) in inventories		(11)	(20)
Decrease/(increase) in other current assets		(54)	26
Increase/(decrease) in payables		108	(36)
Increase/(decrease) in accrued interest payable		(31)	(29)
Increase/(decrease) in other accrued expenses payable		510	(129)
Increase/(decrease) in other liabilities		(432)	131
Increase/(decrease) in contract liabilities		84	–
Increase/(decrease) in provision for employee benefits		218	33
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		9,932	10,817

Notes to the Financial Statements

for the year ended 30 June 2020

Note 19. Commitments

\$ '000	2020	2019
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(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	18	7
Plant and equipment	315	99
Infrastructure	6,993	2,949
Land development	1,099	175
Investment property		
– Buildings	–	5
Total commitments	<u>8,425</u>	<u>3,235</u>

These expenditures are payable as follows:

Within the next year	8,425	3,235
Total payable	<u>8,425</u>	<u>3,235</u>

Details of capital commitments

Council has committed to progressing the St Helena 600 upgrade and construction of Perradenya land release 6.

\$ '000	2020	2019
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(b) Non-cancellable operating lease commitments (2019 only)

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

Within the next year	–	367
Later than one year and not later than 5 years	–	673
Total non-cancellable operating lease commitments	<u>–</u>	<u>1,040</u>

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

Refer to Note 14 for information relating to leases for 2020.

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

Colorworks lease for organisation wide printers.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies

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 2019 for 3 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2019. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as at 30 June 2019.

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 2020 was \$ 72,430. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 30 June 2019.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 20. Contingencies (continued)

The amount of additional contributions included in the total employer contribution advised above is \$72,430. Council's expected contribution to the plan for the next annual reporting period is \$73,163.

The estimated employer reserves financial position for the Pooled Employers at 30 June 2020 is:

Employer reserves only *	\$millions	Asset Coverage
Assets	1,695.2	
Past Service Liabilities	1,773.2	95.6%
Vested Benefits	1,757.5	96.5%

* 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 \$41,300 as at 30 June 2020.

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 2020

Note 21. 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	<i>Carrying value 2020</i>	<i>Carrying value 2019</i>	<i>Fair value 2020</i>	<i>Fair value 2019</i>
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	4,693	2,698	4,693	2,698
Receivables	2,598	2,427	2,598	2,427
Investments				
– 'Financial assets at amortised cost'	30,500	35,000	30,500	35,000
Total financial assets	37,791	40,125	37,791	40,125
Financial liabilities				
Payables	2,386	3,959	2,386	3,959
Loans/advances	21,559	24,145	29,087	32,594
Lease liabilities	659	–	659	–
Total financial liabilities	24,604	28,104	32,132	36,553

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 2020

Note 21. 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
2020				
Possible impact of a 1% movement in interest rates	352	352	(352)	(352)
2019				
Possible impact of a 1% movement in interest rates	377	377	(377)	(377)

(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 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
2020						
Gross carrying amount	2,108	3	476	–	11	2,598
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	100.00%	0.42%
ECL provision	–	–	–	–	11	11
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	–	–	–	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2020

Note 21. Financial risk management (continued)

(c) Liquidity risk

Payables, lease liabilities 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 for non-lease liabilities 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	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 - 5 Years	> 5 Years		
2020							
Trade/other payables	0.00%	–	2,386	–	–	2,386	2,386
Loans and advances	6.58%	–	4,078	16,128	6,861	27,067	21,559
Total financial liabilities		–	6,464	16,128	6,861	29,453	23,945
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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations

Council's original financial budget for 2019/20 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	2020 Budget	2020 Actual	2020 ----- Variance -----	
REVENUES				
User charges and fees	19,650	20,785	1,135	6% F
Other revenues	2,682	2,614	(68)	(3)% U
Operating grants and contributions	836	1,288	452	54% F
Grants and Contributions provided for operating purposes were \$452k (F) (54%) above the original budget forecast. Restoration works under the Natural Disaster Relief Assistance program in relation to the March 2017 flood - Lismore Levee accounted for \$452k.				
Capital grants and contributions	3,520	4,411	891	25% F
Grants and Contributions provided for capital purposes resulted in an increase of \$891k (F) (25%) above budget. The revenue increase can be attributed to increased receipts for Section 64 Developer Contributions of \$891k higher than originally budgeted \$3.52M.				
Interest and investment revenue	628	799	171	27% F
Interest and Investment revenue was \$171k (F) (27%) in excess of the original budget. The original budget for investment interest was based on an average portfolio balance of \$24M calculated on an average rate of return of 2%. 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 \$35M. Whilst interest rates remained low they outperformed the BBSW on average by 146 points for the 2019/20 financial year.				
Net gains from disposal of assets	3,252	-	(3,252)	100% U
The original budget had anticipated the sale of all 20 land lots associated with Perradenya Release 6. Construction was delayed and sale of the release will occur 2020/21.				
Fair value increment on investment property	-	50	50	∞ F
Investment properties are valued annually, with any increment or decrement appearing on the Income Statement. Due to the difficulty in estimating valuations, Council has not provided a budget. This financial year, the property is fully tenanted and has increased in value by \$50k.				
Rental income	-	216	216	∞ F
Rental income has traditionally been reported in Other Revenue. This is the first year rental income has been recognised as a separate line item.				

Notes to the Financial Statements

for the year ended 30 June 2020

Note 22. Material budget variations

\$ '000	2020 Budget	2020 Actual	2020 ----- Variance -----	
EXPENSES				
Employee benefits and on-costs	8,730	8,395	335	4% F
Borrowing costs	1,588	1,546	42	3% F
Materials and contracts	8,140	9,884	(1,744)	(21)% U
Materials and contracts were \$1.744M (U) (21%) above the original budget forecast. The majority of the increase relates to extended ground water (\$1.42M) capital WIP expenditure. Over the past four years a number of studies have been conducted and all expenditure has resided in capital WIP. If this expenditure can not be directly assigned to a specific asset, it is required to be expensed. Council commenced expenditure on the Integrated Water Cycle Management Strategy which was in the original budget.				
Depreciation and amortisation	6,834	7,287	(453)	(7)% U
Other expenses	784	666	118	15% F
Other Expenses were \$118k (F) (15%) below the original budget forecast. This was largely a result of budget savings in insurance costs \$57k, Councillor expenditure \$46k and office supplies \$56k. Offset by increased advertising and marketing \$25k and sponsorship \$10k.				
Net losses from disposal of assets	-	1	(1)	∞ 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.				

STATEMENT OF CASH FLOWS

Cash flows from operating activities	8,074	9,932	1,858	23% F
Cash flows from operating activities was \$1.86M (F) (23%) above the original budget forecast. The majority of the increase relates to additional retail water and filling station sales (\$1.04M) and grant funds (\$1.023M) from projects finished in 2018/19. Offset by capital WIP expenditure for extended ground water (\$1.42M), as mentioned above in 'Materials & Contracts'.				
Cash flows from investing activities	(11,426)	(5,101)	6,325	(55)% F
Cash flows from investing activities was \$6.325M (F) (55%) below the original budget forecast. Historically cash flow from term deposits has not be budgeted and as a result actual net movement was \$4.5M. Expenditure on capital assets was below budget by \$3.15M. Perradenya release 6 construction is still underway and below budget by \$1.76M, offset by no land sales (\$3.25M) in 2019/20. Settlement will now occur in 2020/21.				

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. 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

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

	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	
2020					
Recurring fair value measurements					
Investment property					
Commercial property	30/06/20	–	790	–	790
Total investment property		–	790	–	790
Infrastructure, property, plant and equipment					
Buildings	30/06/18	–	–	2,007	2,007
Land	30/06/18	–	–	10,506	10,506
Non-depreciable land improvements	30/06/17	–	–	2,374	2,374
Depreciable land improvements	30/6/17	–	–	2,360	2,360
Water infrastructure: water distribution assets	30/6/17	–	–	162,072	162,072
Water infrastructure: dams and treatment assets	30/6/17	–	–	173,418	173,418
Flood mitigation infrastructure	30/6/20	–	–	127,391	127,391
Total infrastructure, property, plant and equipment		–	–	480,128	480,128
	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
2019					
Recurring fair value measurements					
Investment property					
Commercial property	01/04/19	–	740	–	740
Total investment property		–	740	–	740
Infrastructure, property, plant and equipment					
Buildings	30/06/18	–	–	2,136	2,136
Land	30/06/18	–	–	10,506	10,506
Non-depreciable land improvements	30/06/17	–	–	2,374	2,374
Depreciable land improvements	30/06/17	–	–	2,423	2,423

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

2019	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	Total
Water infrastructure: water distribution assets	30/06/17	–	–	162,890	162,890
Water infrastructure: dams and treatment assets	30/06/17	–	–	171,275	171,275
Flood mitigation infrastructure	30/06/15	–	–	122,412	122,412
Total infrastructure, property, plant and equipment		–	–	474,016	474,016

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.

(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 Acumentis Pty Ltd for the 2019/20 financial year.

Acumentis 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 – Assetic for the 2019/20 financial year. Assetic 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.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

- 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.

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

Notes to the Financial Statements

for the year ended 30 June 2020

Note 23. Fair Value Measurement (continued)

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 2020

Note 24. Related party disclosures

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	2020	2019
Compensation:		
Short-term benefits	345	345
Post-employment benefits	23	20
Other long-term benefits	6	6
Total	374	371

Notes to the Financial Statements

for the year ended 30 June 2020

Note 25. Events occurring after the reporting date

The financial impact of COVID-19 on Council has not been material, with service levels to the constituent councils and members of the public maintained.

As at 30 June 2020, Council assessed the impact of COVID-19 on the fair value of its non-current physical and financial assets. These assets include land, buildings, infrastructure and receivables. This was based on historical sales information, expectation of macroeconomic conditions and outlook at the time of assessment. Given continued uncertainty of the COVID-19 factor, it is possible that post 30 June 2020 there may be some new evidence that impacts this fair value assessment materially.

There are no other known events that would impact on the Council or have a material impact on the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 26. 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 30/06/19							as at 30/06/20	
	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	–	4,403	–	–	(4,403)	–	–	–	
Total contributions	–	4,403	–	–	(4,403)	–	–	–	

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Result by fund

\$ '000	General ¹ 2020	Water 2020
Income Statement by fund		
Income from continuing operations		
User charges and fees	2	20,783
Interest and investment revenue	98	701
Other revenues	2,404	210
Grants and contributions provided for operating purposes	1,241	47
Grants and contributions provided for capital purposes	–	4,411
Fair value increment on investment property	50	–
Rental income	198	18
Total income from continuing operations	3,993	26,170
Expenses from continuing operations		
Employee benefits and on-costs	1,605	6,790
Borrowing costs	2	1,544
Materials and contracts	2,031	7,853
Depreciation and amortisation	916	6,371
Other expenses	446	220
Net losses from the disposal of assets	(1)	2
Total expenses from continuing operations	4,999	22,780
Operating result from continuing operations	(1,006)	3,390
Net operating result for the year	(1,006)	3,390
Net operating result attributable to each council fund	(1,006)	3,390
Net operating result for the year before grants and contributions provided for capital purposes	(1,006)	(1,021)

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 activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 27. Result by fund (continued)

\$ '000	General ¹ 2020	Water 2020
Statement of Financial Position by fund		
ASSETS		
Current assets		
Cash and cash equivalents	1,419	3,274
Investments	2,270	26,730
Receivables	720	1,833
Inventories	1,222	282
Other	269	287
Total current assets	5,900	32,406
Non-current assets		
Investments	–	1,500
Receivables	37	4,532
Inventories	3,743	226
Infrastructure, property, plant and equipment	128,380	365,541
Investment property	790	–
Intangible assets	4	233
Right of use assets	–	562
Total non-current assets	132,954	372,594
TOTAL ASSETS	138,854	405,000
LIABILITIES		
Current liabilities		
Payables	460	1,926
Contract liabilities	64	20
Lease liabilities	–	312
Borrowings	1	2,700
Provisions	–	2,069
Total current liabilities	525	7,027
Non-current liabilities		
Lease liabilities	–	347
Borrowings	6,984	18,858
Provisions	–	21
Total non-current liabilities	6,984	19,226
TOTAL LIABILITIES	7,509	26,253
Net assets	131,345	378,747
EQUITY		
Accumulated surplus	119,606	120,969
Revaluation reserves	11,739	257,778
Council equity interest	131,345	378,747
Total equity	131,345	378,747

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 activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2020	Indicator 2020	Prior periods		Benchmark
			2019	2018	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(2,076)	(8.08)%	(4.43)%	11.57%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	25,702				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	24,414	81.07%	76.33%	78.35%	>60.00%
Total continuing operating revenue ¹	30,113				
3. Unrestricted current ratio					
Current assets less all external restrictions	32,730	5.25x	5.42x	6.44x	>1.50x
Current liabilities less specific purpose liabilities	6,232				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	6,757	1.54x	1.80x	2.81x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4,382				
5. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	35,193	18.31	21.11	22.84	>3.00
Monthly payments from cash flow of operating and financing activities	1,922	mths	mths	mths	mths

(1) Excludes fair value increments on investment properties, reversal of revaluation decrements, reversal of impairment losses on receivables, net gain on sale of assets and net share of interests in joint ventures and associates using the equity method and includes pensioner rate subsidies

(2) Excludes impairment/revaluation decrements of IPPE, fair value decrements on investment properties, net loss on disposal of assets and net loss on share of interests in joint ventures and associates using the equity method

Notes to the Financial Statements

for the year ended 30 June 2020

Note 28(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Benchmark
	2020	2019	2020	2019	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}					
Total continuing operating revenue excluding capital grants and contributions ¹	(26.78)%	(18.31)%	(4.69)%	(1.68)%	>0.00%
2. Own source operating revenue ratio					
Total continuing operating revenue excluding capital grants and contributions ¹					
Total continuing operating revenue ¹	68.53%	62.97%	82.97%	78.41%	>60.00%
3. Unrestricted current ratio					
Current assets less all external restrictions					
Current liabilities less specific purpose liabilities	8.86x	6.04x	4.96x	4.03x	>1.50x
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹					
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	(2.42)x	2.33x	1.59x	1.79x	>2.00x
5. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits					
Payments from cash flow of operating and financing activities	7.90 mths	14.52 mths	21.65 mths	22.60 mths	>3.00 mths

(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.



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Rous County Council

To the Councillors of Rous County Council

Opinion

I have audited the accompanying financial statements of Rous County Council (the Council), which comprise the Statement by Councillors and Management, the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2020, the Statement of Financial Position as at 30 June 2020, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been prepared, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Other Information

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements.

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the special purpose financial statements.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the *Local Government Act 1993*, and for such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 22 Material budget variations
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

22 October 2020
SYDNEY



Keith Williams
Chair
Rous County Council
PO Box 230
LISMORE NSW 2480

Contact: Gearoid Fitzgerald
Phone no: 02 9275 7392
Our ref: D2022486/1821

22 October 2020

Dear Mr Williams

**Report on the Conduct of the Audit
for the year ended 30 June 2020
Rous County Council**

I have audited the general purpose financial statements (GPFS) of Rous County Council (the Council) for the year ended 30 June 2020 as required by section 415 of the *Local Government Act 1993* (the Act).

I expressed an unmodified opinion on the Council's GPFS.

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2020 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2020	2019	Variance
	\$m	\$m	%
User charges and fees	20.8	19.5	 6.7
Grants and contributions revenue	5.7	7.2	 20.8
Employee benefits and on-costs	8.4	7.5	 12.0
Materials and contracts	9.9	9.0	 10.0
Net losses from the disposal of assets	0.0	1.6	 100.0
Operating result from continuing operations	2.4	2.6	 7.7
Net Operating result before capital grants and contributions	(2.0)	(3.0)	 33.3

The Council's operating surplus from continuing operations (\$2.4 million including depreciation and amortisation expense of \$7.3 million) was \$0.2 million lower than the 2018–19 result. The decrease is largely attributable to the following:

- user charges revenue increased by \$1.3 million. Drought conditions increased water usage during the 2019–20 financial year
- grants and contributions revenue decreased by \$1.5 million. This decrease is largely attributable to reduced s64 contributions because of a decline in development activity (decrease of \$1.2 million)
- employee costs increased by \$0.9 million. Council filled several vacant positions during the 2019–20 financial year
- materials and contracts expenses increased by \$0.9 million. This increase is largely attributable to costs associated with extended groundwater studies (\$1.4 million)
- the Council disposed of approximately \$2.2 million in infrastructure assets in the 2018–19 year.

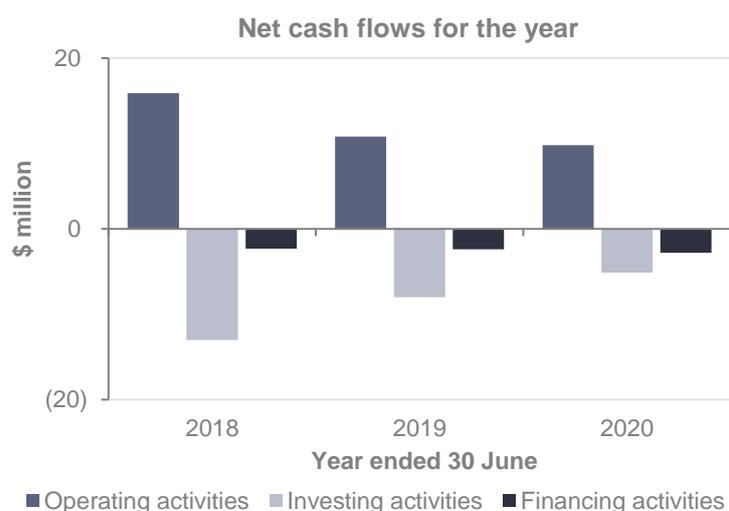
The net operating deficit before capital grants and contributions (\$2.0 million) improved by \$1.0 million from the 2018–19 result.

STATEMENT OF CASH FLOWS

Net cash provided by operating activities has decreased by \$0.9 million.

Net cash used in investing activities has decreased by \$2.9 million. This represents a shift in the composition of Council's investment portfolio, with reduced investment in term deposits.

Net cash used in financing activities has remained consistent over the 3-year period as there have been no significant changes in the current borrowing structure.



FINANCIAL POSITION

Cash and investments

Cash and investments	2020	2019	Commentary
	\$m	\$m	
External restrictions	3.2	3.8	External, internal and unrestricted cash and investments have remained reasonably consistent with the prior year.
Internal restrictions	30.6	32.5	
Unrestricted	1.4	1.4	
Cash and investments	35.2	37.7	

Debt

Council has a bank overdraft facility with an approved drawdown limit of \$0.1 million, which was unused at 30 June 2020. Council continues to repay borrowings in line with existing loan agreements.

PERFORMANCE

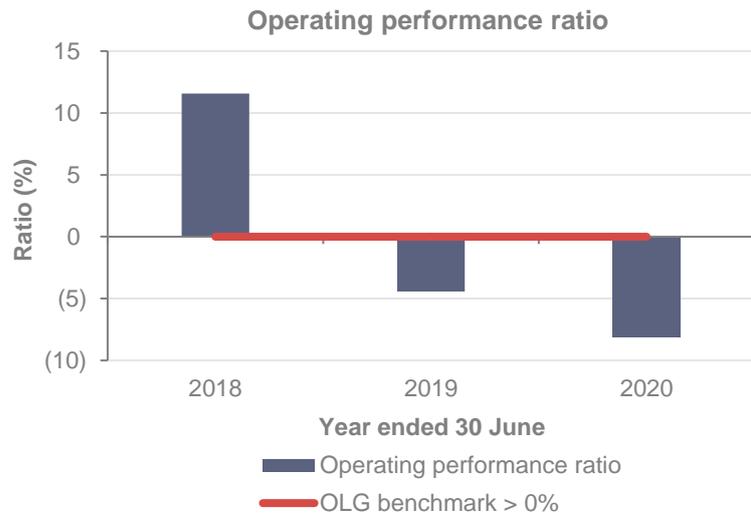
Performance measures

The following section provides an overview of the Council's performance against the performance measures and performance benchmarks set by the Office of Local Government (OLG) within the Department of Planning, Industry and Environment.

Operating performance ratio

The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by OLG is greater than zero per cent.

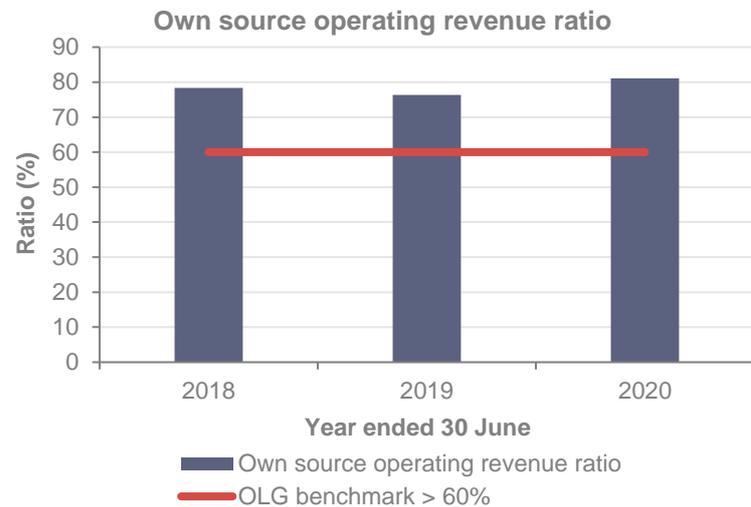
Council did not meet the OLG benchmark for the current reporting period. A deterioration in Councils 2019–20 operating result (before all capital items) led to a reduced operating performance ratio.



Own source operating revenue ratio

The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG is greater than 60 per cent.

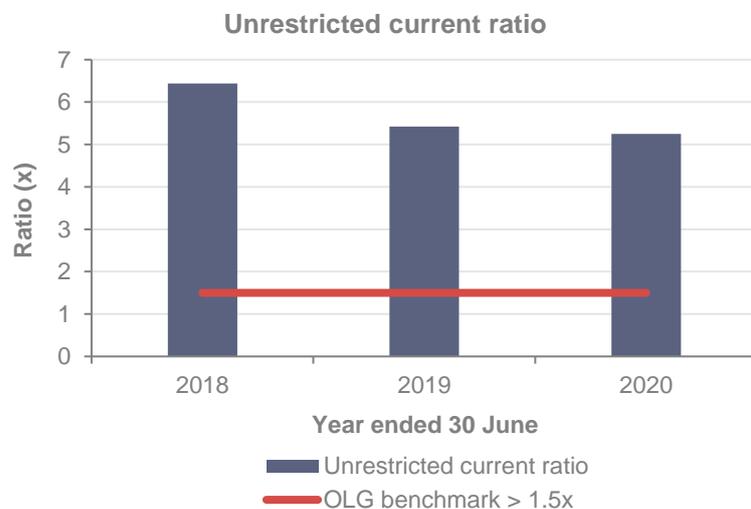
The Council exceeded the OLG benchmark for the current reporting period.



Unrestricted current ratio

The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG is greater than 1.5 times.

The Council exceeded the OLG benchmark for the current reporting period. This ratio demonstrates that Council has \$5.25 in current liquid assets for every \$1 of current liabilities.

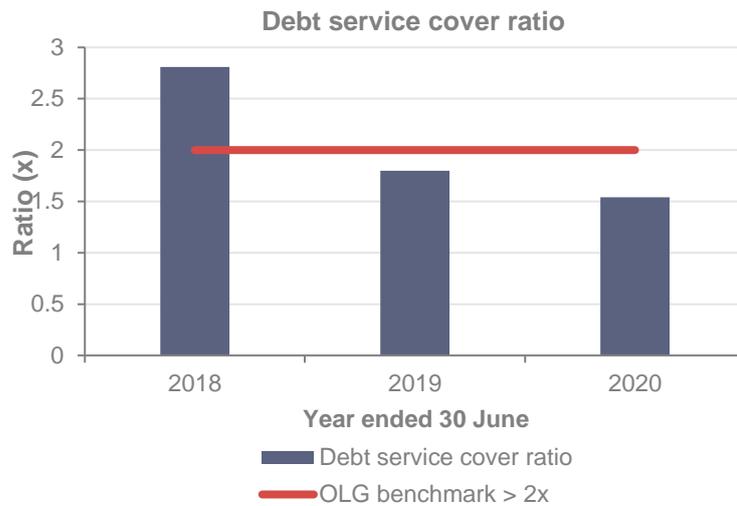


Debt service cover ratio

The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by OLG is greater than two times.

Council did not meet the OLG benchmark for the current reporting period.

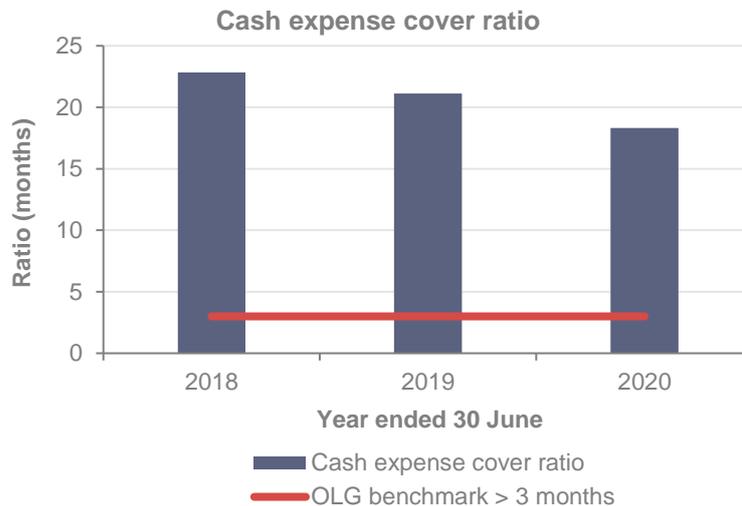
Council has not drawn any new borrowings in the 2019–20 year and loan repayments have remained comparable with the 2018–19 year.



Cash expense cover ratio

This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow. The benchmark set by OLG is greater than three months.

The Council exceeded the OLG benchmark for the current reporting period.



Infrastructure, property, plant and equipment renewals

Council's asset renewal expenditure in the 2019–20 year was \$5.8 million (2018–19 - \$7.5 million). Significant renewal expenditure on the St Helena 600 and Nightcap raw pump upgrade projects occurred in the 2019–20 year.

OTHER MATTERS

Impact of new accounting standards

AASB 15 'Revenue from Contracts with Customers' and AASB 1058 'Income for Not-for-Profit Entities'

The Council adopted the new accounting standards AASB 15 'Contracts with Customers' and AASB 1058 'Income of Not-for-Profit Entities' (collectively referred to as the Revenue Standards) for the first time in their 2019–20 financial statements.

AASB 15 introduces a new approach to recognising revenue based on the principle that revenue is recognised when control of a good or service transfers to a customer. AASB 15 impacts the timing and amount of revenue recorded in a councils' financial statements, particularly for grant revenue. AASB 15 also increases the amount of disclosures required.

AASB 1058 prescribes how not-for-profit entities account for transactions conducted on non-commercial terms and the receipt of volunteer services. AASB 1058 significantly impacts the timing and amount of income recorded in a councils' financial statements, particularly for grant income and rates which are paid before the commencement of the rating period.

The Council determined no adjustment to opening accumulated surplus at 1 July 2019 on adoption of the new Revenue Standards was required.

The Council disclosed the impact of adopting the new Revenue Standards in Note 17.

AASB 16 'Leases'

The Council adopted the new accounting standard AASB 16 'Leases' for the first time in their 2019–20 financial statements.

AASB 16 changes the way lessees treat operating leases for financial reporting. With a few exceptions, operating leases will now be recorded in the Statement of Financial Position as a right-of-use asset, with a corresponding lease liability.

AASB 16 results in lessees recording more assets and liabilities in the Statement of Financial Position and changes the timing and pattern of expenses recorded in the Income Statement.

The Council recognised right-of-use assets of \$0.8 million, a sub-lease receivable of \$0.1 million and lease liabilities of \$0.9 million at 1 July 2019 on adoption of AASB 16.

The Council disclosed the impact of adopting AASB 16 in Note 17.

Legislative compliance

My audit procedures did not identify any instances of non-compliance with legislative requirements or a material deficiency in the Council's accounting records or financial statements. The Council's:

- accounting records were maintained in a manner and form to allow the GPFS to be prepared and effectively audited
- staff provided all accounting records and information relevant to the audit.



Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

cc: Philip Rudd, General Manager
Brian Wilkinson, Chair of Audit, Risk and Improvement Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment

Rous County Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2020



Special Purpose Financial Statements

for the year ended 30 June 2020

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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).

Special Purpose Financial Statements
for the year ended 30 June 2020

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

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

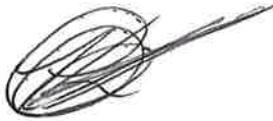
- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government Code of Accounting Practice and Financial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

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

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

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 21 October 2020.



Keith Williams
Chairperson
21 October 2020



Sharon Cadwallader
Deputy Chairperson
21 October 2020



Phillip Rudd
General Manager
21 October 2020



Guy Bezrouchko
Responsible Accounting Officer
21 October 2020

Income Statement – Water Supply Business Activity

for the year ended 30 June 2020

\$ '000	2020	2019
Income from continuing operations		
User charges	20,783	19,500
Interest	701	872
Grants and contributions provided for non-capital purposes	47	–
Other income	228	222
Total income from continuing operations	21,759	20,594
Expenses from continuing operations		
Employee benefits and on-costs	6,790	6,018
Borrowing costs	1,544	1,673
Materials and contracts	7,853	6,745
Depreciation, amortisation and impairment	6,371	5,906
Loss on sale of assets	2	2,164
Other expenses	220	597
Total expenses from continuing operations	22,780	23,103
Surplus (deficit) from continuing operations before capital amounts	(1,021)	(2,509)
Grants and contributions provided for capital purposes	4,411	5,671
Surplus (deficit) from continuing operations after capital amounts	3,390	3,162
Surplus (deficit) from all operations before tax	3,390	3,162
SURPLUS (DEFICIT) AFTER TAX	3,390	3,162
Plus accumulated surplus	117,579	114,809
Plus adjustments for amounts unpaid:		
Less:		
– Surplus dividend paid	–	(392)
Closing accumulated surplus	120,969	117,579
Return on capital %	0.1%	(0.2)%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	3,390	3,162
Surplus for dividend calculation purposes	3,390	3,162
Potential dividend calculated from surplus	1,695	1,581

Income Statement – Land

for the year ended 30 June 2020

\$ '000	2020	2019
	Category 2	Category 2
Income from continuing operations		
Profit from the sale of assets	–	713
Total income from continuing operations	–	713
Expenses from continuing operations		
Materials and contracts	48	–
Calculated taxation equivalents	28	28
Total expenses from continuing operations	76	28
Surplus (deficit) from continuing operations before capital amounts	(76)	685
Surplus (deficit) from continuing operations after capital amounts	(76)	685
Surplus (deficit) from all operations before tax	(76)	685
SURPLUS (DEFICIT) AFTER TAX	(76)	685
Plus accumulated surplus	(493)	(1,206)
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	28	28
Closing accumulated surplus	(541)	(493)
Subsidy from Council	76	–

Income Statement – Commercial Property

for the year ended 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
Income from continuing operations		
Interest	25	4
Other income	248	213
Total income from continuing operations	273	217
Expenses from continuing operations		
Employee benefits and on-costs	21	–
Materials and contracts	119	109
Depreciation, amortisation and impairment	64	442
Calculated taxation equivalents	3	3
Other expenses	70	70
Total expenses from continuing operations	277	624
Surplus (deficit) from continuing operations before capital amounts	(4)	(407)
Surplus (deficit) from continuing operations after capital amounts	(4)	(407)
Surplus (deficit) from all operations before tax	(4)	(407)
SURPLUS (DEFICIT) AFTER TAX	(4)	(407)
Plus accumulated surplus	2,184	2,196
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	3	3
Add:		
– Subsidy paid/contribution to operations	–	392
Closing accumulated surplus	2,183	2,184
Subsidy from Council	4	407

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2020

\$ '000	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	3,274	2,310
Investments	26,731	24,618
Receivables	1,833	1,529
Inventories	282	304
Other	287	210
Total current assets	32,407	28,971
Non-current assets		
Right of use assets	562	–
Investments	1,500	6,000
Receivables	4,532	3,901
Inventories	226	226
Infrastructure, property, plant and equipment	365,541	361,860
Intangible assets	233	365
Total non-current assets	372,594	372,352
TOTAL ASSETS	405,001	401,323
LIABILITIES		
Current liabilities		
Contract liabilities	20	–
Lease liabilities	312	–
Payables	1,926	3,136
Borrowings	2,701	2,530
Provisions	2,069	1,844
Total current liabilities	7,028	7,510
Non-current liabilities		
Lease liabilities	347	–
Borrowings	18,858	21,559
Provisions	21	27
Total non-current liabilities	19,226	21,586
TOTAL LIABILITIES	26,254	29,096
NET ASSETS	378,747	372,227
EQUITY		
Accumulated surplus	120,969	117,608
Revaluation reserves	257,778	254,619
TOTAL EQUITY	378,747	372,227

Statement of Financial Position – Land

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Receivables	254	255
Inventories	1,126	98
Total current assets	1,380	353
Non-current assets		
Inventories	5,439	5,141
Total non-current assets	5,439	5,141
TOTAL ASSETS	6,819	5,494
LIABILITIES		
Current liabilities		
Payables	376	301
Total current liabilities	376	301
Non-current liabilities		
Borrowings	6,984	5,686
Total non-current liabilities	6,984	5,686
TOTAL LIABILITIES	7,360	5,987
NET ASSETS	(541)	(493)
EQUITY		
Accumulated surplus	(541)	(493)
TOTAL EQUITY	(541)	(493)

Statement of Financial Position – Commercial Property

as at 30 June 2020

\$ '000	2020 Category 2	2019 Category 2
ASSETS		
Current assets		
Cash and cash equivalents	461	133
Investments	671	1,038
Receivables	1	5
Other	260	284
Total current assets	1,393	1,460
Non-current assets		
Investment property	790	740
Total non-current assets	790	740
TOTAL ASSETS	2,183	2,200
LIABILITIES		
Current liabilities		
Payables	–	16
Total current liabilities	–	16
TOTAL LIABILITIES	–	16
NET ASSETS	2,183	2,184
EQUITY		
Accumulated surplus	2,183	2,184
TOTAL EQUITY	2,183	2,184

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2020

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 2020

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 \$734,000 of combined land values attracts 0%. For the combined land values in excess of \$734,001 up to \$4,488,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$4,488,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$900,000.

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 Best Practice Management of Water Supply and Sewer 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 2020

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 0.88% at 30/6/20.

(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 2020 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

In accordance with the Best Practice Management of Water Supply and Sewer 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.



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statements
Rous County Council

To the Councillors of Rous County Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Rous County Council's (the Council) Declared Business Activities, which comprise the Statement by Councillors and Management, the Income Statement of each Declared Business Activity for the year ended 30 June 2020, the Statement of Financial Position of each Declared Business Activity as at 30 June 2020 and Note 1 Significant accounting policies for the Business Activities declared by Council.

The Declared Business Activities of the Council are:

- Water supply
- Land
- Commercial property.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared Business Activities as at 30 June 2020, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 28 (LG Code).

My opinion should be read in conjunction with the rest of this report.

Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Council in accordance with the requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants (including Independence Standards)' (APES 110).

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as the auditor of councils
- precluding the Auditor-General from providing non-audit services.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial statements may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2020 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information. However, as required by the *Local Government Act 1993*, I have separately expressed an opinion on the general purpose financial statements.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

The Councillors are responsible for the preparation and fair presentation of the financial statements and for determining that the accounting policies, described in Note 1 to the financial statements, are appropriate to meet the requirements in the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements.

Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar4.pdf. The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, reading "Gearoid Fitzgerald". The signature is written in a cursive style with a large, sweeping flourish over the first part of the name.

Gearoid Fitzgerald
Delegate of the Auditor-General for New South Wales

22 October 2020
SYDNEY

Rous County Council

SPECIAL SCHEDULES
for the year ended 30 June 2020



Special Schedules

for the year ended 30 June 2020

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Special Schedules

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Report on Infrastructure Assets as at 30 June 2020

Asset Class	Asset Category	Estimated cost		2019/20 Required maintenance ^a	2019/20 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	
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000						
(a) Report on Infrastructure Assets as at 30 June 2020													
Buildings	Council works depot	200	169	188	42	759	1,811	0.0%	55.0%	38.0%	7.0%	0.0%	
	Council houses	100	55	89	8	1,248	3,042	0.0%	27.0%	43.0%	30.0%	0.0%	
	Sub-total	300	224	277	50	2,007	4,853	0.0%	37.4%	41.1%	21.4%	0.0%	
Water supply network	Water supply network	5,950	23,499	3,350	2,966	335,490	468,146	28.0%	44.0%	18.0%	10.0%	0.0%	
	Sub-total	5,950	23,499	3,350	2,966	335,490	468,146	28.0%	44.0%	18.0%	10.0%	0.0%	
Water supply land improvements	Land Improvements – Water assets	120	504	454	415	4,734	5,621	22.0%	43.0%	30.0%	5.0%	0.0%	
	Sub-total	120	504	454	415	4,734	5,621	22.0%	43.0%	30.0%	5.0%	0.0%	
Flood mitigation network	Flood mitigation	420	652	1,125	987	127,391	139,609	35.0%	53.0%	10.0%	2.0%	0.0%	
	Sub-total	420	652	1,125	987	127,391	139,609	35.0%	53.0%	10.0%	2.0%	0.0%	
TOTAL - ALL ASSETS		6,790	24,879	5,206	4,418	469,622	618,229	29.3%	46.0%	16.5%	8.2%	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 2020

\$ '000	Amounts	Indicator	Prior periods		Benchmark
	2020	2020	2019	2018	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	5,761	92.77%	127.76%	19.78%	>=100.00%
Depreciation, amortisation and impairment	6,210				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	6,790	1.45%	0.56%	0.58%	<2.00%
Net carrying amount of infrastructure assets	469,622				
Asset maintenance ratio					
Actual asset maintenance	4,418	84.86%	70.17%	84.06%	>100.00%
Required asset maintenance	5,206				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	24,879	4.02%	1.73%	1.42%	
Gross replacement cost	618,229				

(*) 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 2020

\$ '000	General fund		Water fund		Benchmark
	2020	2019	2020	2019	
Infrastructure asset performance indicators (by fund)					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²					
Depreciation, amortisation and impairment	8.38%	4.43%	106.98%	149.10%	>=100.00%
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard					
Net carrying amount of infrastructure assets	0.65%	0.48%	1.75%	0.59%	<2.00%
Asset maintenance ratio					
Actual asset maintenance					
Required asset maintenance	78.23%	67.02%	88.54%	72.84%	>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	0.96%	0.51%	4.96%	2.09%	

(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.