



General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

Armidale Regional Council is constituted under the Local Government Act 1993 (NSW) and has its principal place of business at:

135 Rusden Street
Armidale NSW 2350

Council's guiding principles are detailed in Chapter 3 of the LGA and includes:

- principles applying to the exercise of functions generally by council,
- principles to be applied when making decisions,
- principles of community participation,
- principles of sound financial management, and
- principles for strategic planning relating to the development of an integrated planning and reporting framework.

A description of the nature of Council's operations and its principal activities are provided in Note 2(b).

Through the use of the internet, we have ensured that our reporting is timely, complete and available at minimum cost. All press releases, financial statements and other information are publicly available on our website: www.armidale.nsw.gov.au.

General Purpose Financial Statements

for the year ended 30 June 2019

Understanding Council's Financial Statements

Introduction

Each year, individual Local Governments across NSW are required to present a set of audited financial statements to their council and community.

What you will find in the Statements

The financial statements set out the financial performance, financial position and cash flows of Council for the financial year ended 30 June 2019.

The format of the financial statements is standard across all NSW Councils and complies with both the accounting and reporting requirements of Australian Accounting Standards and requirements as set down by the Office of Local Government.

About the Councillor/Management Statement

The financial statements must be certified by senior staff as 'presenting fairly' the Council's financial results for the year and are required to be adopted by Council – ensuring both responsibility for and ownership of the financial statements.

About the Primary Financial Statements

The financial statements incorporate five "primary" financial statements:

1. The Income Statement

Summarises Council's financial performance for the year, listing all income and expenses. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

2. The Statement of Comprehensive Income

Primarily records changes in the fair value of Council's Infrastructure, property, plant and equipment.

3. The Statement of Financial Position

A 30 June snapshot of Council's financial position indicating its assets, liabilities and "net wealth".

4. The Statement of Changes in Equity

The overall change for the year (in dollars) of Council's "net wealth".

5. The Statement of Cash Flows

Indicates where Council's cash came from and where it was spent. This statement also displays Council's original adopted budget to provide a comparison between what was projected and what actually occurred.

About the Notes to the Financial Statements

The Notes to the Financial Statements provide greater detail and additional information on the five primary financial statements.

About the Auditor's Reports

Council's financial statements are required to be audited by the NSW Audit Office.

In NSW the auditor provides 2 audit reports:

1. an opinion on whether the financial statements present fairly the Council's financial performance and position, and
2. their observations on the conduct of the audit, including commentary on the Council's financial performance and financial position.

Who uses the Financial Statements?

The financial statements are publicly available documents and must be presented at a Council meeting between seven days and five weeks after the date of the audit report.

The public can make submissions to Council up to seven days subsequent to the public presentation of the financial statements.

Council is required to forward an audited set of financial statements to the Office of Local Government.

General Purpose Financial Statements
for the year ended 30 June 2019

Statement by Councillors and Management made pursuant to Section 413(2)(c) of the Local Government Act 1993 (NSW) (as amended)

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

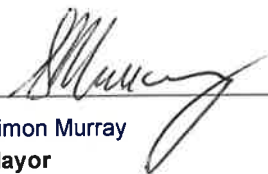
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and other pronouncements of the Australian Accounting Standards Board
- the *Local Government Code of Accounting Practice and Financial Reporting*.

To the best of our knowledge and belief, these 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 25 September 2019.



Simon Murray
Mayor
25 September 2019



Libby Martin
Deputy Mayor
25 September 2019



Susan Law
Chief Executive Officer
25 September 2019



Kelly Stidworthy
Responsible Accounting Officer
25 September 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
31,867	Rates and annual charges	3a	32,256	30,990
18,273	User charges and fees	3b	21,334	19,299
1,200	Interest and investment revenue	3c	1,973	1,817
2,734	Other revenues	3d	3,162	3,054
13,148	Grants and contributions provided for operating purposes	3e,3f	14,691	13,026
14,660	Grants and contributions provided for capital purposes	3e,3f	16,230	8,672
<u>Other income:</u>				
–	Reversal of revaluation decrements / impairment of IPP&E previously expensed	4d	–	146
81,882	Total income from continuing operations		89,646	77,004
Expenses from continuing operations				
24,363	Employee benefits and on-costs	4a	24,385	24,083
1,618	Borrowing costs	4b	1,654	1,642
19,136	Materials and contracts	4c	18,750	20,869
16,806	Depreciation and amortisation	4d	18,198	16,429
9,127	Other expenses	4e	9,632	11,116
–	Net losses from the disposal of assets	5	1,102	6,104
–	Revaluation decrement / impairment of IPP&E	4d	608	–
71,050	Total expenses from continuing operations		74,329	80,243
10,832	Operating result from continuing operations		15,317	(3,239)
10,832	Net operating result for the year		15,317	(3,239)
10,832	Net operating result attributable to council		15,317	(3,239)
(3,828)	Net operating result for the year before grants and contributions provided for capital purposes		(913)	(11,911)

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

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

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		15,317	(3,239)
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	10(a)	6,082	17,687
Total items which will not be reclassified subsequently to the operating result		6,082	17,687
Total other comprehensive income for the year		6,082	17,687
Total comprehensive income for the year		21,399	14,448
Total comprehensive income attributable to Council		21,399	14,448

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

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

Statement of Financial Position
as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	11,040	17,244
Investments	6(b)	58,236	48,120
Receivables	7	12,357	12,753
Inventories	8a	846	1,116
Other	8b	171	252
Current assets classified as 'held for sale'	9i	921	–
Total current assets		<u>83,571</u>	<u>79,485</u>
Non-current assets			
Receivables	7	327	366
Infrastructure, property, plant and equipment	10(a)	859,990	846,391
Total non-current assets		<u>860,317</u>	<u>846,757</u>
TOTAL ASSETS		<u>943,888</u>	<u>926,242</u>
LIABILITIES			
Current liabilities			
Payables	12	6,736	8,788
Income received in advance	12	1,200	1,321
Borrowings	12	2,962	3,004
Provisions	13	7,434	7,712
Total current liabilities		<u>18,332</u>	<u>20,825</u>
Non-current liabilities			
Borrowings	12	23,801	26,726
Provisions	13	4,563	2,898
Total non-current liabilities		<u>28,364</u>	<u>29,624</u>
TOTAL LIABILITIES		<u>46,696</u>	<u>50,449</u>
Net assets		<u>897,192</u>	<u>875,793</u>
EQUITY			
Accumulated surplus	14	873,423	858,106
Revaluation reserves	14	23,769	17,687
Council equity interest		<u>897,192</u>	<u>875,793</u>
Total equity		<u>897,192</u>	<u>875,793</u>

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

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

Statement of Changes in Equity
for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		858,106	17,687	875,793	861,345	–	861,345
Restated opening balance		858,106	17,687	875,793	861,345	–	861,345
Net operating result for the year		15,317	–	15,317	(3,239)	–	(3,239)
Restated net operating result for the period		15,317	–	15,317	(3,239)	–	(3,239)
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	10(a)	–	6,082	6,082	–	17,687	17,687
Other comprehensive income		–	6,082	6,082	–	17,687	17,687
Total comprehensive income		15,317	6,082	21,399	(3,239)	17,687	14,448
Equity – balance at end of the reporting period		873,423	23,769	897,192	858,106	17,687	875,793

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

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

Statement of Cash Flows
for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
<u>Receipts</u>				
31,800	Rates and annual charges		32,487	29,259
17,955	User charges and fees		21,529	18,389
1,249	Investment and interest revenue received		1,763	2,076
27,960	Grants and contributions		34,096	17,703
–	Bonds, deposits and retention amounts received		–	51
2,445	Other		6,972	7,551
<u>Payments</u>				
(23,539)	Employee benefits and on-costs		(24,478)	(24,117)
(19,184)	Materials and contracts		(21,150)	(20,774)
(1,634)	Borrowing costs		(1,676)	(1,738)
–	Bonds, deposits and retention amounts refunded		(2,088)	–
(9,028)	Other		(13,770)	(9,375)
28,024	Net cash provided (or used in) operating activities	15b	33,685	19,025
Cash flows from investing activities				
<u>Receipts</u>				
19,401	Sale of investment securities		60,000	16,838
3,190	Sale of infrastructure, property, plant and equipment		2,792	654
–	Deferred debtors receipts		39	13
<u>Payments</u>				
–	Purchase of investment securities		(70,116)	(3,303)
(40,829)	Purchase of infrastructure, property, plant and equipment		(29,637)	(29,141)
–	Purchase of real estate assets		–	(14)
(18,238)	Net cash provided (or used in) investing activities		(36,922)	(14,953)
Cash flows from financing activities				
<u>Receipts</u>				
–	Proceeds from borrowings and advances		–	3,000
<u>Payments</u>				
(2,797)	Repayment of borrowings and advances		(2,967)	(2,667)
(2,797)	Net cash flow provided (used in) financing activities		(2,967)	333
6,989	Net increase/(decrease) in cash and cash equivalents		(6,204)	4,405
10,143	Plus: cash and cash equivalents – beginning of year	15a	17,244	12,839
17,132	Cash and cash equivalents – end of the year	15a	11,040	17,244
Additional Information:				
33,027	plus: Investments on hand – end of year	6(b)	58,236	48,120
50,159	Total cash, cash equivalents and investments		69,276	65,364

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

Notes to the Financial Statements

for the year ended 30 June 2019

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 25 September 2019. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not for-profit entity.

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

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

- Income statement
- Statement of cash flows
- Note 20 - Material budget variations

and are clearly marked.

Where relevant, comparative information has been reclassified to align with current year treatment.

(a) New and amended standards adopted by Council

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

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 1 below.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of infrastructure, property, plant and equipment - refer Note 10;
- (ii) estimated tip remediation provisions - refer Note 13; and
- (iii) employee benefit provisions - refer Note 13.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Significant judgements in applying the council's accounting policies

(i) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables – refer Note 7.

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:

- General purpose operations
- Water service
- Sewerage service

(b) The Trust Fund

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

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

A separate statement of monies held in the Trust Fund is available for inspection at the council office by any person free of charge.

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

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

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

AASB 16 Leases

AASB 16 will result (for the financial year 2019/2020 and beyond) in almost all operating leases being recognised on the balance sheet by Council with the distinction between operating and finance leases removed.

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1 July 2019).

AASB 16 will (on the whole) affect Council's accounting for existing operating lease agreements that are in place as at 30 June 2019.

At the end of this reporting period, Council has non-cancellable operating lease commitments of \$1,030,748 - refer Note 17.

Of these commitments, approximately \$138,369 relate to short-term leases and there were no low value leases. Both of these lease types and amounts will continue to be accounted for as they currently are (being expensed on a straight-line basis within the Income Statement).

For the remaining operating lease commitments of \$892,379, Council anticipates it will recognise lease liabilities (on its balance sheet) of \$313,105 (after adjustments for prepayments and accrued lease payments recognised as at 30 June 2019) and also recognise complimentary right-of-use assets (on its balance sheet) totalling \$313,105 on 1 July 2019. The \$313,105 represents the present value of the future commitments of \$892,379.

From a financial position standpoint, as a result of recognising the above lease liabilities and right-of-use assets, Council's net assets (as at 1 July 2019) will not change while net current assets will be \$25,506 lower due to the presentation of a portion of the lease liability as a current liability.

From a financial performance standpoint, Council expects that net operating result will decrease by approximately \$47,936 for the 2019/2020 financial year as a result of adopting the standard.

Operating cash flows will increase and financing cash flows decrease by approximately \$25,506 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities, as opposed to the full operating lease payment amount being treated as an operating cashflow.

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

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

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

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

Council has assessed each revenue stream and particular impact is expected for grant income and rates which are paid before the commencement of the rating period.

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

The impact of AASB15 is expected to be:

At 1 July 2019:

- recognition of a liability of \$13,298,000 representing unspent grant and contribution monies received in previous financial years and where Council has specific performance obligations to meet under the grant or contribution conditions.
- an adjustment to reduce accumulated surpluses by \$13,298,000, since grant and contribution monies were previously recorded as revenue upon receipt, under the former accounting standards.

During the 2019-20 financial year:

- for each receipt of grant or contribution monies, where specific performance obligations are required to be completed by Council under the grant or contribution conditions, Council will recognise a liability. As the performance obligations under each grant or contribution are completed, Council will recognise income and reduce the liability.
- for rates received in advance from ratepayers, a liability will be recognised until the rates become payable. This is not expected to be a significant amount during the year.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

AASB 1058 Income of NFP Entities

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

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

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

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

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

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

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

The specific impacts of AASB1058 for Council are expected to be the same as the impact of AASB 15 Revenue from Contracts with Customers, as noted above.

AASB 2018-8 Amendments to Australian Accounting Standards – Right-of-Use Assets of Not-for-Profit Entities

This Standard provides a temporary option for not-for-profit entities to not apply the fair value initial measurement requirements for right-of-use assets arising under leases with significantly below market terms and conditions, principally to enable the entity to further its objectives (for example, concessionary or peppercorn leases).

The Standard requires an entity that elects to apply the option (i.e. measures a class or classes of such right-of-use assets at cost rather than fair value) to include additional disclosures in the financial statements to ensure users understand the effects on the financial position, financial performance and cash flows of the entity arising from these leases.

As per a NSW Office of Local Government recommendation, Council has elected to measure right-of-use assets (under a concessionary or peppercorn lease) at cost. The standard requires additional disclosures be provided in relation to below market-value leases measured at cost.

The specific impacts of AASB2018-8 for Council is expected to be recognition of an asset at 1 July 2019 relating to the right-of-use Street Lighting assets owned by Essential Energy. Council has assessed a valuation of the asset based upon cost at \$4,695,894. The corresponding adjustment will be the recognition of a liability, representing the future cash outflows required to be paid for the usage of the Street Lighting.

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

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

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Growth, Prosperity, and Economic Development	52,759	4,813	46,748	6,943	6,011	(2,130)	17,957	19	–	10,161
People and Community	5,688	6,476	13,744	22,428	(8,056)	(15,952)	3,936	3,912	106,644	93,727
Leadership for the Region	25,607	23,109	4,026	1,412	21,581	21,697	4,332	4,241	81,898	34,785
Environment and Infrastructure	5,592	42,606	9,811	49,460	(4,219)	(6,854)	1,029	9,834	755,346	787,569
Total functions and activities	89,646	77,004	74,329	80,243	15,317	(3,239)	27,254	18,006	943,888	926,242

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Growth, Prosperity, and Economic Development

Includes tourism, economic development, private works and industrial development promotion.

People and Community

Includes public halls and community facilities, parks, gardens and recreation facilities, swimming pools, community development and support including aboriginal services, youth services, aged and disabled services. Also includes libraries, museums and other cultural facilities as well as bush fire and emergency services.

Leadership for the Region

Includes Civic governance and executive, finance and human resources services, risk management and occupational health and safety, ranger services, fleet and depot services and customer services.

Environment and Infrastructure

Includes urban and rural sealed and unsealed roads, bridges, footpaths, kerb and gutter, parking areas, airports, water and sewerage operations, cemeteries, footpaths and cycleways, street lighting, waste management and catchment management. Also includes development control, strategic planning, environmental management and animal control.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	10,782	10,489
Farmland	4,793	4,659
Mining	65	63
Business	2,540	2,470
Less: pensioner rebates (mandatory)	(367)	(374)
Rates levied to ratepayers	17,813	17,307
Pensioner rate subsidies received	175	181
Total ordinary rates	17,988	17,488
Annual charges		
<small>(pursuant to s.496, s.496A, s.496B, s.501 & s.611)</small>		
Domestic waste management services	3,897	3,571
Water supply services	2,327	2,445
Sewerage services	5,435	5,235
Drainage	463	459
Waste management services (non-domestic)	2,396	2,035
Less: pensioner rebates (Council policy)	(448)	(442)
Annual charges levied	14,070	13,303
Pensioner subsidies received:		
– Water	72	73
– Sewerage	68	69
– Domestic waste management	58	57
Total annual charges	14,268	13,502
TOTAL RATES AND ANNUAL CHARGES	32,256	30,990

Council has used 2016 year valuations provided by the NSW Valuer General in calculating its rates.

Accounting policy for rates and charges

Rates and annual charges are recognised as revenue when the Council obtains control over the assets comprising these receipts.

Pensioner rebates relate to reductions in rates and certain annual charges for eligible pensioners' place of residence in the local government area that are not subsidised by the NSW Government.

Pensioner rate subsidies are received from the NSW Government to provide a contribution towards the pensioner rebates.

Control over assets acquired from rates and annual charges is obtained at the commencement of the rating year as it is an enforceable debt linked to the rateable property or, where earlier, upon receipt of the rates.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
<small>(per s.502 - specific 'actual use' charges)</small>		
Water supply services	9,197	8,563
Sewerage services	77	54
Drainage services	65	68
Waste management services (non-domestic)	2,854	1,973
Other	143	54
Total specific user charges	12,336	10,712
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Inspection services	116	132
Planning and building regulation	201	193
Private works – section 67	300	399
Regulatory/ statutory fees	40	18
Registration fees	76	85
Regulatory fees	149	177
Section 10.7 certificates (EP&A Act)	76	77
Section 603 certificates	85	104
Total fees and charges – statutory/regulatory	1,043	1,185
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	1,789	1,419
Aged care	3	5
Cemeteries	227	182
Child care	538	218
Leaseback fees – Council vehicles	110	151
Library and art gallery	–	39
Quarry revenues	586	473
RMS (formerly RTA) charges (state roads not controlled by Council)	4,037	4,301
Saleyards	6	99
Sundry sales	191	177
Swimming centres	227	198
Other	241	140
Total fees and charges – other	7,955	7,402
TOTAL USER CHARGES AND FEES	21,334	19,299

Accounting policy for user charges and fees

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(c) Interest and investment revenue (including losses)		
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	109	102
– Cash and investments	1,849	1,700
– Deferred debtors	15	12
– Other	–	3
TOTAL INTEREST AND INVESTMENT REVENUE	1,973	1,817

Interest revenue is attributable to:

Unrestricted investments/financial assets:

Overdue rates and annual charges (general fund)	70	102
General Council cash and investments	609	1,127

Restricted investments/funds – external:

Development contributions		
– Section 7.11, Section 7.12	130	–
Water fund operations	739	304
Sewerage fund operations	399	262
Other externally restricted assets	26	22

Total interest and investment revenue

1,973	1,817
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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 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(d) Other revenues		
Rental income – other council properties	841	562
Fines – parking	166	186
Legal fees recovery – rates and charges (extra charges)	91	88
Commissions and agency fees	8	35
Diesel rebate	387	284
Insurance claims recoveries	28	18
Sales – general	34	27
Rental income – Kolora aged care	21	490
Items for resale	236	181
Sales – cattle	655	735
Rebates	168	120
Other	527	328
<u>TOTAL OTHER REVENUE</u>	<u>3,162</u>	<u>3,054</u>

Accounting policy for other revenue

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

Parking fees and fines are a result of Council issuing infringement notices and these are followed up and collected by the Infringement Processing Bureau. Due to the limited information available on the status, value and duration of outstanding notices, Council is unable to reliably determine the value of income, so income from parking fees and fines is recognised as revenue on receipt.

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	2,127	2,001	–	–
Financial assistance – local roads component	1,221	1,172	–	–
Payment in advance - future year allocation				
Financial assistance – general component	2,205	2,054	–	–
Financial assistance – local roads component	1,267	1,215	–	–
Other				
Other grants	–	269	–	–
Total general purpose	6,820	6,711	–	–
Specific purpose				
Water supplies	–	–	9,700	–
Aged care	223	968	–	2,012
Bushfire and emergency services	–	–	8	100
Community care	153	–	10	–
Economic development	118	–	–	–
Employment and training programs	–	50	–	–
Heritage and cultural	–	19	–	–
Library	102	–	–	60
LIRS subsidy	79	100	–	–
NSW rural fire services	345	300	1,036	121
Recreation and culture	723	–	602	–
Street lighting	84	82	–	–
Transport (roads to recovery)	3,364	1,970	–	–
Transport (other roads and bridges funding)	898	–	2,613	1,040
Airport	–	–	–	4,343
Drainage	–	26	–	–
Waste Management	–	–	128	104
Other	38	–	210	–
Total specific purpose	6,127	3,515	14,307	7,780
Total grants	12,947	10,226	14,307	7,780
Grant revenue is attributable to:				
– Commonwealth funding	10,749	9,380	1,487	6,500
– State funding	2,187	846	12,820	1,280
- Other funding	11	–	–	–
	12,947	10,226	14,307	7,780

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.4 – contributions using planning agreements		–	–	–	1
S 7.11 – contributions towards amenities/services		–	–	219	4
S 7.12 – fixed development consent levies		–	–	209	48
S 64 – water supply contributions		–	–	364	429
S 64 – sewerage service contributions		–	–	340	218
Total developer contributions – cash		–	–	1,132	700
Total developer contributions	24	–	–	1,132	700
Other contributions:					
Cash contributions					
Bushfire services		209	136	–	–
Community services		59	438	–	–
Other councils – joint works/services		31	390	–	–
Recreation and culture		138	48	–	–
Roads and bridges		18	–	507	40
RMS contributions (regional roads, block grant)		1,262	1,273	155	152
Tourism		17	16	–	–
Other		10	57	129	–
Aged homes contribution		–	4	–	–
Northern Inland Regional Waste		–	438	–	–
Total other contributions – cash		1,744	2,800	791	192
Total other contributions		1,744	2,800	791	192
Total contributions		1,744	2,800	1,923	892
TOTAL GRANTS AND CONTRIBUTIONS		14,691	13,026	16,230	8,672

Accounting policy for grants and contributions

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

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

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

Operating grants

Unexpended at the close of the previous reporting period	9,243	11,149
Add: operating grants recognised in the current period but not yet spent	686	835
Add: operating grants received for the provision of goods and services in a future period	–	–
Less: operating grants now spent	(4,813)	(2,741)
Unexpended and held as restricted assets (operating grants)	<u>5,116</u>	<u>9,243</u>

Unexpended Operating Grants are grant monies received in relation to Council's Specific Purpose Operating projects and where those grant monies are not fully expended at year end. Several of Council's Specific Purpose Operating projects include transport and NSW Rural Fire Service related projects.

Capital grants

Unexpended at the close of the previous reporting period	115	42
Add: capital grants recognised in the current period but not yet spent	1,881	115
Add: capital grants received for the provision of goods and services in a future period	–	–
Less: capital grants now spent	(115)	(42)
Unexpended and held as restricted assets (capital grants)	<u>1,881</u>	<u>115</u>

Unexpended Capital Grants are grant monies received in relation to Council's Specific Purpose Capital projects and where those grant monies are not fully expended at year end. Several of Council's Specific Purpose Capital projects include water supply and transport related projects.

Contributions

Unexpended at the close of the previous reporting period	4,771	3,854
Add: contributions recognised in the current period but not yet spent	6,262	981
Add: contributions received for the provision of goods and services in a future period	–	–
Add: contributions recognised as income in the current period obtained in respect of a future rating identified by Council for the purpose of establishing a rate	–	–
Less: contributions now spent	(4,732)	(64)
Unexpended and held as restricted assets (contributions)	<u>6,301</u>	<u>4,771</u>

Unexpended Contributions are contribution monies received in relation to certain of Council's Operating and Capital projects and where those contribution monies are not fully expended at year end. Several of Council's Operating and Capital projects involving unexpended contributions include water supply and sewer headworks projects.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	18,445	18,876
Employee termination costs	654	621
Travel expenses	159	174
Employee leave entitlements (ELE)	3,904	3,403
Superannuation	2,381	2,387
Workers' compensation insurance	398	416
Fringe benefit tax (FBT)	(1)	89
Payroll tax	147	158
Training costs (other than salaries and wages)	222	187
Protective clothing	86	91
Other	37	80
Total employee costs	26,432	26,482
Less: capitalised costs	(2,047)	(2,399)
TOTAL EMPLOYEE COSTS EXPENSED	24,385	24,083
Number of 'full-time equivalent' employees (FTE) at year end	277	275

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 superannuation plans and defined contribution superannuation 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 superannuation plan under the Local Government Superannuation Scheme. Sufficient information to account for the plan as a defined benefit plan is not available, 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 18 for more information.

\$ '000	Notes	2019	2018
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		1,613	1,755
Total interest bearing liability costs expensed		1,613	1,755
(ii) Other borrowing costs			
Amortisation of discount of tip remediation liabilities	13	41	(113)
Total other borrowing costs		41	(113)
TOTAL BORROWING COSTS EXPENSED		1,654	1,642

Accounting policy for borrowing costs

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	18,388	28,722
Contractor and consultancy costs	27,220	19,802
Auditors remuneration ²	103	135
Legal expenses:		
– Legal expenses: planning and development	21	84
– Legal expenses: debt recovery	158	94
– Legal expenses: other	320	268
Operating leases:		
– Operating lease rentals: minimum lease payments ¹	160	216
Total materials and contracts	<u>46,370</u>	<u>49,321</u>
Less: capitalised costs	(27,620)	(28,452)
TOTAL MATERIALS AND CONTRACTS	<u>18,750</u>	<u>20,869</u>

Accounting policy for operating leases

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

1. Operating lease payments are attributable to:

Office equipment & other items	160	216
	<u>160</u>	<u>216</u>

2. Auditor remuneration

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

Auditors of the Council - NSW Auditor-General:

(i) Audit and other assurance services

Audit and review of financial statements	96	135
Remuneration for audit and other assurance services	<u>96</u>	<u>135</u>
Total Auditor-General remuneration	<u>96</u>	<u>135</u>

Non NSW Auditor-General audit firms

(i) Audit and other assurance services

Other Assurance services including acquittal audits	7	–
Remuneration for audit and other assurance services	<u>7</u>	<u>–</u>
Total remuneration of non NSW Auditor-General audit firms	<u>7</u>	<u>–</u>
Total Auditor remuneration	<u>103</u>	<u>135</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		1,798	1,587
Office equipment		299	417
Infrastructure:			
– Buildings		2,476	2,954
– Other structures		136	140
– Roads		4,750	4,359
– Bridges		778	781
– Footpaths		277	282
– Stormwater drainage		668	519
– Water supply network		3,130	2,994
– Sewerage network		2,122	1,537
– Airport infrastructure		354	333
Other assets:			
– Heritage collections		10	9
– Other		835	497
Reinstatement, rehabilitation and restoration assets:			
– Landfill and quarry assets	10(a)	565	20
Total gross depreciation and amortisation costs		18,198	16,429
Total depreciation and amortisation costs		18,198	16,429
Impairment / revaluation decrement of IPP&E			
Infrastructure:			
– Buildings (relates to write-down of building assets to recoverable amount in preparation for sale)	10(a)	608	–
Reinstatement, rehabilitation and restoration assets:			
– Landfill and quarry assets	10(a)	–	(146)
Total gross IPP&E impairment / revaluation decrement costs / (reversals)		608	(146)
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		608	(146)
<u>TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E</u>		18,806	16,283

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

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 10 for IPPE assets.

Impairment of non-financial assets

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

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.

\$ '000	2019	2018
(e) Other expenses		
Advertising	103	256
Bad and doubtful debts	448	–
Bank charges	122	113
Computer software charges	827	525
Contributions/levies to other levels of government	990	1,295
Councillor expenses – mayoral fee	43	27
Councillor expenses – councillors' fees	216	172
Councillors' expenses (incl. mayor) – other (excluding fees above)	3	8
Donations, contributions and assistance to other organisations (Section 356)	781	734
Election expenses	–	169
Electricity and heating	981	1,072
Insurance	1,077	1,028
Items for resale	537	513
Postage	214	206
Printing and stationery	230	116
Promotion and publicity	287	224
Street lighting	417	222
Subscriptions and publications	170	143
Telephone and communications	452	631
Valuation fees	103	105
Security	125	85
Licences	500	401
Other asset adjustments through profit and loss	–	1,701
Other	1,006	1,370
Total other expenses	9,632	11,116
TOTAL OTHER EXPENSES	9,632	11,116

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	Notes	2019	2018
Operational Land & Building assets			
Proceeds from disposal – property		1,507	–
Less: carrying amount of property assets sold/written off		(750)	–
Net gain/(loss) on disposal		757	–
Plant and equipment assets			
	10(a)		
Proceeds from disposal – plant and equipment		1,285	654
Less: carrying amount of plant and equipment assets sold/written off		(595)	(1,054)
Net gain/(loss) on disposal		690	(400)
Infrastructure assets			
	10(a)		
Proceeds of disposal of Infrastructure assets		–	–
Less: carrying amount of infrastructure assets sold/written off		(2,488)	(5,643)
Net gain/(loss) on disposal		(2,488)	(5,643)
Real estate assets held for sale			
	8		
Proceeds from disposal - Real estate assets held for sale		–	–
Less: balance written off - assessed as non-recoverable		(61)	–
Less: carrying amount of real estate assets sold/written off		–	(61)
Net gain/(loss) on disposal		(61)	(61)
Investment assets			
	6(b)		
Proceeds from disposal/redemptions/maturities – investments		60,000	8,419
Less: carrying amount of investments sold/redeemed/matured		(60,000)	(8,419)
Net gain/(loss) on disposal		–	–
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(1,102)	(6,104)

Accounting policy for disposal of assets

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	11,040	17,244
Total cash and cash equivalents	<u>11,040</u>	<u>17,244</u>

Accounting policy for cash and cash equivalents

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

Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
b. 'Financial assets at amortised cost' / 'held to maturity' (2018)	58,236	–	48,120	–
Total Investments	<u>58,236</u>	<u>–</u>	<u>48,120</u>	<u>–</u>
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	<u>69,276</u>	<u>–</u>	<u>65,364</u>	<u>–</u>
Financial assets at amortised cost / held to maturity (2018)				
Short - medium term deposits	58,236	–	48,120	–
Total	<u>58,236</u>	<u>–</u>	<u>48,120</u>	<u>–</u>

Accounting policy for investments

Accounting policy under AASB 9 – applicable from 1 July 2018

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

On initial recognition, all financial instruments are measured at fair value plus transaction costs.

Financial assets

All recognised financial assets are subsequently measured in their entirety at amortised cost.

Classification

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.

Council's financial assets measured at amortised cost comprise Term Deposits (with maturities of less than 380 days) and the NSW Government T-Corp Investment Management Cash Fund (which is considered to have a short - medium term investment horizon), as disclosed 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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(b). Investments (continued)

Accounting policy under AASB 139 – applicable for 2018 comparatives only

Classification

Council classifies its financial assets as held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(a) Held-to-maturity investments

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

Recognition and de-recognition

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

Impairment of financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	69,276	–	65,364	–
attributable to:				
External restrictions	59,772	–	61,352	–
Internal restrictions	7,654	–	2,521	–
Unrestricted	1,850	–	1,491	–
	<u>69,276</u>	<u>–</u>	<u>65,364</u>	<u>–</u>

\$ '000	2019	2018
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Details of restrictions

External restrictions – included in liabilities

Specific purpose unexpended loans – general	3,408	6,911
NIRW grant from EPA	947	981
Aged care bonds	–	2,082

External restrictions – included in liabilities

<u>4,355</u>	<u>9,974</u>
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External restrictions – other

Developer contributions – general	2,387	1,887
Developer contributions – water fund	1,885	1,444
Developer contributions – sewer fund	1,530	1,124
RMS contributions	17	152
Specific purpose unexpended grants	6,997	9,358
Water supplies	26,185	23,251
Sewerage services	13,927	12,798
Domestic waste management	607	–
Trust Fund	1,431	1,200
Other	451	164

External restrictions – other

<u>55,417</u>	<u>51,378</u>
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Total external restrictions

<u>59,772</u>	<u>61,352</u>
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Internal restrictions

Employees leave entitlement	3,194	2,521
Carry over works	2,368	–
Other	2,092	–

Total internal restrictions

<u>7,654</u>	<u>2,521</u>
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TOTAL RESTRICTIONS

<u>67,426</u>	<u>63,873</u>
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Notes to the Financial Statements
for the year ended 30 June 2019

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	1,752	–	1,887	–
Interest and extra charges	368	–	521	–
User charges and fees	2,282	–	2,480	–
Private works	2,266	–	2,311	–
Accrued revenues				
– Interest on investments	752	–	389	–
Deferred debtors	–	327	–	366
Government grants and subsidies	4,300	–	4,375	–
Net GST receivable	975	–	682	–
Other debtors	111	–	388	–
Total	12,806	327	13,033	366
Less: provision of impairment				
Rates and annual charges	(223)	–	(127)	–
User charges and fees	(226)	–	(153)	–
Total provision for impairment – receivables	(449)	–	(280)	–
<u>TOTAL NET RECEIVABLES</u>	<u>12,357</u>	<u>327</u>	<u>12,753</u>	<u>366</u>
Externally restricted receivables				
Water supply				
– Rates and availability charges	144	–	148	–
– Other	2,279	–	2,534	–
Sewerage services				
– Rates and availability charges	974	–	987	–
– Other	–	–	42	–
Domestic waste management	130	–	183	–
Total external restrictions	3,527	–	3,894	–
Unrestricted receivables	8,830	327	8,859	366
<u>TOTAL NET RECEIVABLES</u>	<u>12,357</u>	<u>327</u>	<u>12,753</u>	<u>366</u>

\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	280	280
Less Debts written off during the year	(240)	–
Add additional provision for impairment in the current year	409	–
Balance at the end of the period	449	280

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

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

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

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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

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

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.

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.

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, or when the receivables are over 2 year past due, whichever occurs first.

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

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

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

Rates and annual charges outstanding are secured against the property.

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

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale	–	–	61	–
Stores and materials	537	–	640	–
Trading stock	309	–	415	–
Total inventories at cost	846	–	1,116	–
TOTAL INVENTORIES	846	–	1,116	–

(b) Other assets

Prepayments	171	–	252	–
TOTAL OTHER ASSETS	171	–	252	–

Externally restricted assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Sewerage				
Inventories	305	–	326	–
Total sewerage	305	–	326	–

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total externally restricted assets	305	–	326	–
Total internally restricted assets	–	–	–	–
Total unrestricted assets	712	–	1,042	–
TOTAL INVENTORIES AND OTHER ASSETS	1,017	–	1,368	–

(i) Other disclosures

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Details for real estate development					
Industrial/commercial		–	–	61	–
Total real estate for resale		–	–	61	–

(Valued at the lower of cost and net realisable value)

Represented by:

Acquisition costs	–	–	61	–
Total costs	–	–	61	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets (continued)

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total real estate for resale		–	–	61	–
Movements:					
Real estate assets at beginning of the year		61	–	61	–
– Purchases and other costs		–	–	14	–
– Transfers in from (out to) Note 9		–	–	47	–
– WDV of sales (expense)	5	–	–	(61)	–
– Write off of non-recoverable opening balance	5	(61)	–	–	–
Total real estate for resale		–	–	61	–

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.

Note 9. Non-current assets classified as held for sale

(i) Non-current assets 'held for sale'

\$ '000	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Buildings - Former Kolora Aged Care facility site & buildings	10(a)	921	–	–	–
Total non-current assets 'held for sale'		921	–	–	–
<u>TOTAL NON-CURRENT ASSETS CLASSIFIED AS 'HELD FOR SALE'</u>		921	–	–	–

(ii) Details of assets and disposal groups

The property formerly used as the Kolora Aged Care facility in Guyra is being marketed for sale. Offers have been received and negotiations continue to be held with potential purchasers. At 30 June 2019, the carrying value of the property has been written down to its recoverable amount, indicated by the offers received, less estimated disposal costs.

Accounting policy for non-current assets classified as held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as assets arising from employee benefits; financial assets; and investment properties that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale.

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	as at 30/6/2018			Asset movements during the reporting period								as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	9,084	–	9,084	–	18,653	(75)	–	–	(1,556)	–	–	26,106	–	26,106
Plant and equipment	19,535	(8,962)	10,573	2,012	–	(595)	(1,798)	–	–	–	–	19,790	(9,598)	10,192
Office equipment	5,258	(4,614)	644	–	–	–	(299)	–	–	–	–	5,236	(4,891)	345
Land:														
– Operational land	21,815	–	21,815	–	–	(503)	–	–	–	–	–	21,312	–	21,312
– Community land	19,913	–	19,913	–	–	(31)	–	–	–	–	–	19,882	–	19,882
– Land under roads (post 30/6/08)	–	–	–	–	–	–	–	–	–	–	721	721	–	721
Infrastructure:														
– Buildings	123,983	(55,588)	68,395	–	948	(316)	(2,476)	(608)	142	(921)	–	120,498	(55,334)	65,164
– Other structures	10,345	(3,835)	6,510	–	234	(173)	(136)	–	4	–	–	10,410	(3,971)	6,439
– Roads	242,609	(63,645)	178,964	3,328	343	(961)	(4,750)	–	18	–	–	245,337	(68,395)	176,942
– Bridges	63,925	(22,420)	41,505	1,583	–	(423)	(778)	–	407	–	–	64,734	(22,440)	42,294
– Footpaths	14,538	(6,508)	8,030	–	24	–	(277)	–	141	–	–	14,703	(6,785)	7,918
– Bulk earthworks (non-depreciable)	152,653	–	152,653	–	–	–	–	–	–	–	–	152,653	–	152,653
– Stormwater drainage	62,414	(12,773)	49,641	53	–	(11)	(668)	–	–	–	–	62,456	(13,441)	49,015
– Water supply network	224,247	(71,702)	152,545	1,217	–	(383)	(3,130)	–	261	–	3,203	230,050	(76,337)	153,713
– Sewerage network	137,747	(34,998)	102,749	1,089	–	(99)	(2,122)	–	37	–	2,158	141,667	(37,855)	103,812
– Airport infrastructure	8,999	(1,633)	7,366	–	–	(211)	(354)	–	546	–	–	9,334	(1,987)	7,347
Other assets:														
– Heritage collections	130	(60)	70	–	–	–	(10)	–	–	–	–	130	(70)	60
– Artworks	112	–	112	–	–	–	–	–	–	–	–	112	–	112
– Other	19,584	(3,940)	15,644	–	153	(52)	(835)	–	–	–	–	19,685	(4,775)	14,910
Reinstatement, rehabilitation and restoration assets (refer Note 14):														
– Landfill & quarry assets	2,703	(2,525)	178	–	–	–	(565)	–	–	1,439	–	3,984	(2,931)	1,053
Total Infrastructure, property, plant and equipment	1,139,594	(293,203)	846,391	9,282	20,355	(3,833)	(18,198)	(608)	–	518	6,082	1,168,800	(308,810)	859,990

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

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

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

	as at 30/6/2017			Asset movements during the reporting period									as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	WIP transfers	Other movements recognised in P/L	Tfrs from/(to) real estate assets (Note 8)	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000															
Capital work in progress	12,815	–	12,815	–	7,733	(59)	–	–	(11,405)	–	–	–	9,084	–	9,084
Plant and equipment	21,777	(10,572)	11,205	1,972	–	(1,054)	(1,587)	–	–	37	–	–	19,535	(8,962)	10,573
Office equipment	5,095	(4,197)	898	16	129	–	(417)	–	18	–	–	–	5,258	(4,614)	644
Land:															
– Operational land	25,916	–	25,916	–	213	–	–	–	(3,263)	(1,443)	–	392	21,815	–	21,815
– Community land	11,117	–	11,117	–	334	–	–	–	3,263	(3,005)	–	8,204	19,913	–	19,913
Land improvements – non-depreciable	–	–	–	–	–	–	–	–	47	–	(47)	–	–	–	–
Infrastructure:															
– Buildings	104,063	(52,985)	51,078	–	10,066	(3,865)	(2,954)	–	9,915	197	–	3,958	123,983	(55,588)	68,395
– Other structures	10,296	(3,696)	6,600	–	50	–	(140)	–	–	–	–	–	10,345	(3,835)	6,510
– Roads	239,826	(60,622)	179,204	4,197	809	(1,118)	(4,359)	–	231	–	–	–	242,609	(63,645)	178,964
– Bridges	63,653	(21,877)	41,776	421	60	(60)	(781)	–	89	–	–	–	63,925	(22,420)	41,505
– Footpaths	14,538	(6,226)	8,312	–	–	–	(282)	–	–	–	–	–	14,538	(6,508)	8,030
– Bulk earthworks (non-depreciable)	152,653	–	152,653	–	–	–	–	–	–	–	–	–	152,653	–	152,653
– Stormwater drainage	61,603	(12,291)	49,312	270	205	(80)	(519)	–	453	–	–	–	62,414	(12,773)	49,641
– Water supply network	213,826	(65,351)	148,475	1,170	172	(461)	(2,994)	–	615	2,512	–	3,056	224,247	(71,702)	152,545
– Sewerage network	134,053	(33,594)	100,459	22	1,721	–	(1,537)	–	–	7	–	2,077	137,747	(34,998)	102,749
– Airport infrastructure	8,792	(1,299)	7,493	–	206	–	(333)	–	–	–	–	–	8,999	(1,633)	7,366
Other assets:															
– Heritage collections	130	(51)	79	–	–	–	(9)	–	–	–	–	–	130	(60)	70
– Other	18,477	(3,443)	15,034	361	709	–	(497)	–	37	–	–	–	19,584	(3,940)	15,644
– Artworks	112	–	112	–	–	–	–	–	–	–	–	–	112	–	112
Reinstatement, rehabilitation and restoration assets (refer Note 14):															
– Tip assets	2,716	(2,664)	52	–	–	–	(20)	146	–	–	–	–	2,703	(2,525)	178
Total Infrastructure, property, plant and equipment	1,101,458	(278,868)	822,590	8,429	22,407	(6,697)	(16,429)	146	–	(1,695)	(47)	17,687	1,139,594	(293,203)	846,391

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

Land is not depreciated. 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	5 to 10	Playground equipment	5 to 15
Office furniture	10 to 20	Benches, seats etc.	10 to 20
Computer equipment	4		
Vehicles	5 to 8	Buildings	
Heavy plant/road making equipment	5 to 8	Buildings: masonry	50 to 100
Other plant and equipment	5 to 15	Buildings: other	20 to 40
Water and sewer assets		Stormwater assets	
Dams and reservoirs	80 to 100	Drains	80 to 100
Bores	20 to 40	Culverts	50 to 80
Reticulation pipes: PVC	70 to 80	Flood control structures	80 to 100
Reticulation pipes: other	25 to 75		
Pumps and telemetry	15 to 20		
Transportation assets		Other infrastructure assets	
Sealed roads: surface	20	Bulk earthworks	Infinite
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Unsealed roads	20
Bridge: concrete	100	Other open space/recreational assets	20
Bridge: other	50	Other infrastructure	20
Road pavements	60		
Kerb, gutter and footpaths	40		

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

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips.

Council has elected not to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

Land under roads acquired after 1 July 2008 is recognised in accordance with AASB 116 Property, Plant and Equipment.

Notes to the Financial Statements

for the year ended 30 June 2019

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

Crown reserves

Crown reserves under Council's care and control are recognised as assets of the Council. While ownership of the reserves remains with the Crown, Council retains operational control of the reserves and is responsible for their maintenance and use in accordance with the specific purposes to which the reserves are dedicated.

Improvements on Crown reserves are also recorded as assets, while maintenance costs incurred by Council and revenues relating to the reserves are recognised within Council's Income Statement.

Rural Fire Service assets

Under Section 119 of the *Rural Fire Services Act 1997 (NSW)*, "all firefighting equipment purchased or constructed wholly or from money to the credit of the Fund is to be vested in the council of the area for or on behalf of which the firefighting equipment has been purchased or constructed".

Rural Fire Service Land and Building assets are recognised as assets of the Council in these financial statements. Until such time as discussions on this matter have concluded and the legislation amended, Council does not recognise other Rural Fire Service assets.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10(b). Externally restricted infrastructure, property, plant and equipment

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	10,374	–	10,374	805	–	805
Plant and equipment	1,289	556	733	1,289	556	733
Office equipment	223	150	73	223	150	73
Land						
– Operational land	1,039	–	1,039	1,039	–	1,039
– Community land	481	–	481	481	–	481
Buildings	2,010	1,133	877	2,010	1,104	906
Other structures	4,611	2,002	2,609	4,611	2,002	2,609
Infrastructure	230,435	76,721	153,714	224,247	71,702	152,545
Other assets	1,249	264	985	1,249	222	1,027
Total water supply	251,711	80,826	170,885	235,954	75,736	160,218
Sewerage services						
WIP	52	–	52	26	–	26
Plant and equipment	2,241	918	1,323	2,242	918	1,324
Office equipment	76	26	50	76	20	56
Land						
– Operational land	1,862	–	1,862	1,862	–	1,862
Buildings	1,335	960	375	1,335	929	406
Infrastructure	141,766	37,953	103,813	137,747	34,998	102,749
Other assets	698	117	581	697	67	630
Total sewerage services	148,030	39,974	108,056	143,985	36,932	107,053
<u>TOTAL RESTRICTED I,PP&E</u>	399,741	120,800	278,941	379,939	112,668	267,271

Note 10(c). Infrastructure, property, plant and equipment – current year impairments

Council has recognised impairment losses on certain Infrastructure, Property, Plant and Equipment during the reporting period, as disclosed in Note 4 (d).

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Intangible assets

\$ '000	2019	2018
Intangible assets are as follows:		
Opening values at 1 July		
Gross book value	–	868
Accumulated amortisation	–	(868)
Net book value – opening balance	–	–
Movements for the year		
– Gross book value written off	–	(868)
– Accumulated amortisation charges written off	–	868
Closing Values at 30 June	–	–
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u>	<u>–</u>	<u>–</u>
The net book value of intangible assets represents:	–	–

IT development and software

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

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

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

Note 12. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	2,920	–	3,606	–
Accrued expenses:				
– Borrowings	130	–	152	–
– Other expenditure accruals	1,307	–	761	–
Security bonds, deposits and retentions	–	–	2,088	–
NIRW grant from EPA	947	–	981	–
Trust	1,432	–	1,200	–
Total payables	6,736	–	8,788	–
Income received in advance				
Payments received in advance	1,200	–	1,321	–
Total income received in advance	1,200	–	1,321	–
Borrowings				
Loans – secured ¹	2,962	23,801	3,004	26,726
Total borrowings	2,962	23,801	3,004	26,726
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>10,898</u>	<u>23,801</u>	<u>13,113</u>	<u>26,726</u>

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

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 19.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	384	4,493	395	4,759
Sewer	20	3	20	24
Domestic waste management	1,305	9,556	1,271	12,362
Other	2,321	–	3,063	–
Payables and borrowings relating to externally restricted assets	4,030	14,052	4,749	17,145
Total payables and borrowings relating to restricted assets	4,030	14,052	4,749	17,145
Total payables and borrowings relating to unrestricted assets	6,868	9,749	8,364	9,581
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>10,898</u>	<u>23,801</u>	<u>13,113</u>	<u>26,726</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

\$ '000	2019	2018
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(b) Current payables and borrowings not anticipated to be settled within the next twelve months

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

Other liabilities: Unspent loan	1,451	2,000
Total payables and borrowings	1,451	2,000

(c) Changes in liabilities arising from financing activities

\$ '000	as at 30/6/2018					as at 30/6/2019
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	29,730	(2,967)	–	–	–	26,763
TOTAL	29,730	(2,967)	–	–	–	26,763

\$ '000	as at 30/6/2017					as at 30/6/2018
	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	29,397	333	–	–	–	29,730
TOTAL	29,397	333	–	–	–	29,730

(d) Financing arrangements

Additional financing arrangements information

Breaches and defaults

During the current and prior year, there were no defaults or breaches of any of the loans.

Security over loans

Land, buildings and other property held by Council, along with the general rating income of Council is provided as security for loans.

Unused limits and facilities

Council has access to an unused overdraft with a limit of \$1,000,000.

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 and bank and other loans.

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Payables and borrowings (continued)

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

Council is not party to any finance leasing arrangements.

Note 13. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	2,159	–	2,223	–
Long service leave	5,120	380	5,315	195
Other leave – Accrued leave	155	–	174	–
Sub-total – aggregate employee benefits	7,434	380	7,712	195
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	4,183	–	2,703
Sub-total – asset remediation/restoration	–	4,183	–	2,703
<u>TOTAL PROVISIONS</u>	<u>7,434</u>	<u>4,563</u>	<u>7,712</u>	<u>2,898</u>
(a) Provisions relating to restricted/unrestricted assets				
Total provisions relating to unrestricted assets	7,434	4,563	7,712	2,898
<u>TOTAL PROVISIONS</u>	<u>7,434</u>	<u>4,563</u>	<u>7,712</u>	<u>2,898</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

\$ '000	2019	2018
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(b) 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	4,521	5,000
	<u>4,521</u>	<u>5,000</u>

(c) Description of and movements in provisions

\$ '000	ELE provisions			Total
	Annual leave	Long service leave	Other employee benefits	
2019				
At beginning of year	2,223	5,510	174	7,907
Leave Taken	(1,524)	(795)	(1,678)	(3,997)
Leave Accrued	1,460	786	1,658	3,904
Total ELE provisions at end of period	<u>2,159</u>	<u>5,501</u>	<u>154</u>	<u>7,814</u>
2018				
At beginning of year	2,189	5,752	–	7,941
Leave Taken	–	–	–	–
Leave Accrued	–	–	–	–
Other	34	(242)	174	(34)
Total ELE provisions at end of period	<u>2,223</u>	<u>5,510</u>	<u>174</u>	<u>7,907</u>

\$ '000	Other provisions	
	Asset remediation	Total
2019		
At beginning of year	2,703	2,703
Unwinding of discount	41	41
Additional Provision	1,439	1,439
Total other provisions at end of period	<u>4,183</u>	<u>4,183</u>
2018		
At beginning of year	2,816	2,816
Unwinding of discount	(113)	(113)
Total other provisions at end of period	<u>2,703</u>	<u>2,703</u>

Nature and purpose of non-employee benefit provisions

Landfill and Quarry remediation

Council has a legal and public obligation to make, restore, rehabilitate and reinstate council landfill sites and quarries in-line with relevant licencing agreements.

During the 2018/19 Financial year, Council made a significant adjustment to the provision to restore, rehabilitate and restate Council's main landfill site.

A review was completed by Council staff to revise the estimate to remediate the current landfill site at the end of its useful life. The current estimate using the phytocap rehabilitation method is \$3.8 million for the estimated 46 hectare site. This is an increase from the 2018 estimate of \$2.3 million, primarily due to cost revisions for rehabilitation materials and transportation

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

costs. This increase in cost has resulted in an increase in the provision for rehabilitation by \$1.4 million. This is disclosed above in Note 13 of the Financial Statements.

Council notes that the phytocap method of rehabilitation is only in testing phase with a limited number of councils in NSW and the EPA have not yet provided approval for Council to use phytocap technology. If approval is not provided by the EPA, additional provision may be required to rehabilitate the site.

Any changes to this provision will be reflected in future Financial Statements.

Accounting policy for provisions

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

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

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

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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.

Provisions for close-down and restoration, and environmental clean-up costs – landfills and quarries

Restoration

Close-down and restoration costs include the dismantling and demolition of infrastructure, and the removal of residual materials and remediation of disturbed areas. Estimated close-down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the development or during the operation phase, based on the net present value of estimated future costs.

Provisions for close-down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Provisions (continued)

Rehabilitation

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each reporting date, and the cost is charged to the Income Statement.

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the reporting date. These costs are charged to the Income Statement. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwinding of the discount which is shown as a borrowing cost.

Remediation procedures generally commence soon after the time the damage, remediation process, and estimated remediation costs become known, but may continue for many years depending on the nature of the disturbance and the remediation techniques.

As noted above, the ultimate cost of environmental remediation is uncertain and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques, or experience at other locations. The expected timing of expenditure can also change, for example in response to changes in quarry reserves or production rates. As a result, there could be significant adjustments to the provision for close down and restoration and environmental clean-up, which would affect future financial results.

Other movements in the provisions for close-down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations, and revisions to discount rates, are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Close-down and restoration costs are a normal consequence of tip and quarry operations, and the majority of close-down and restoration expenditure is incurred at the end of the life of the operations. Although the ultimate cost to be incurred is uncertain, Council estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

Self-insurance

Council does not self-insure.

Notes to the Financial Statements

for the year ended 30 June 2019

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

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.

Refer to the Statement of Changes in Equity for the rollforward of the Accumulated Surplus and Revaluation Reserve from 2018 to 2019 and comparatives for the prior year.

Note 15. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	11,040	17,244
Balance as per the Statement of Cash Flows		11,040	17,244
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		15,317	(3,239)
Adjust for non-cash items:			
Depreciation and amortisation		18,198	16,429
Net losses/(gains) on disposal of assets		1,102	6,104
Reversal of prior year IPP&E revaluation decrements / impairment previously costed direct to the P&L		-	(146)
Losses/(gains) recognised on fair value re-measurements through the P&L:			
- Revaluation decrements / impairments of IPP&E direct to P&L		608	-
Unwinding of discount rates on reinstatement provisions		41	(113)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		227	(2,441)
Increase/(decrease) in provision for impairment of receivables		169	-
Decrease/(increase) in inventories		209	208
Decrease/(increase) in other current assets		81	(252)
Increase/(decrease) in payables		(686)	(113)
Increase/(decrease) in accrued interest payable		(22)	17
Increase/(decrease) in other accrued expenses payable		546	761
Increase/(decrease) in other liabilities		(2,011)	1,844
Increase/(decrease) in provision for employee benefits		(93)	(34)
Increase/(decrease) in other provisions		(1)	-
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		33,685	19,025

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities

Unconsolidated structured entities

Council did not consolidate the following structured entities:

\$ '000	2019	2018
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1. New England Weeds Authority

New England Weeds Authority (NEWA), is the registered trading name of The New England Tablelands Noxious Plants County Council. NEWA is a single purpose Council which is a Local Control Authority for priority and invasive weeds under the NSW Biosecurity Act, 2015. The present area of operation of NEWA is the local government areas of Armidale Regional, Walcha, Uralla Shire, and Glen Innes Severn (under a Memorandum of Understanding). These Councils are located in the Northern Tablelands region of New South Wales.

The County Council's governance is in accordance with the Local Government Act 1993 (LGA 1993) with the County Council first proclaimed in 1947.

NEWA is funded by contributions from its four Constituent Councils, grants and private works. Each Constituent Council has delegated its Noxious weeds control function to NEWA and contributes in accordance with NEWA's proclamation. NEWA's governing body consists of five Councillors elected by each of the Constituent Councils.

NEWA leases property from Council for office accommodation, parking and storage of chemicals under a 5 year lease agreement from 1 July 2015 - 30 June 2020. Council also provides servicing of vehicles owned by NEWA at cost. Management assessed the impact of the NEWA's operations to be insignificant to the financial statements of Council.

Nature of risks relating to the Unconsolidated Structured Entity

NEWA is a separately constituted and proclaimed County Council. The proclamation determined the contribution of each participating Council. These contributions are the total financial support required of each Constituent Council.

Council has no further obligations should NEWA become insolvent. As a proclaimed entity of the State of NSW, any additional funding obligations remain with the State.

Non-contractual financial support provided

Council did not provide any non contractual support to NEWA.

Current intention to provide financial support

Council will continue to provide a contribution to NEWA in accordance with NEWA's proclamation. Council's expected contribution for the 2019/2020 year is approximately \$220,000 including GST.

2. New England Regional Art Museum (NERAM)

New England Regional Art Museum (NERAM) is a not for profit company limited by guarantee, and a Charitable Trust which has received endorsed deductible gift recipient status. NERAM is an organisation built with a combination of state and local government funding and community contributions. Council does not hold any ownership interest in NERAM.

NERAM's income is derived from several sources, including a 20 year funding agreement with Council (38%), NSW government (5%), with the balance made up from membership fees, art classes, commercial sponsorship and fundraising.

The 20 year funding agreement commenced on 15 April 2009 at \$265,000 per annum plus GST, indexed at Councils rate peg increase at each anniversary date. The funding agreement is due to expire on 14 April 2028. Under the funding agreement, Council also provides 'in kind' support for building maintenance, up to a capped amount of \$10,000 per annum indexed with CPI each year, on the building that NERAM occupies and leases from Council under a separate lease agreement.

Council has assessed the impact of the organisation's operations to be insignificant to the financial statements of Council.

Nature of risks relating to the Unconsolidated Structured Entity

Council provides 38% of funding for NERAM. As a public company limited by guarantee, the organisation is responsible for its own funding, while it may not exist without Council's ongoing support. Council makes 4 quarterly payments to NERAM in accordance with the funding agreement.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Interests in other entities (continued)

\$ '000	2019	2018
The main assets of NERAM are artworks. The nature of the Hinton and Coventry Trust prevent sale and usage of funds to fund operations. The assets and liabilities of NERAM are not considered significant to the financial statements of Council.		
Income received by Council relating to the Structured Entity		
– Rental Income	(11)	(15)
Assets in Council's Statement of Financial Position relating to the Structured Entity	7,311	7,560
Net assets in Council's Statement of Financial Position	7,311	7,560
Difference – net asset/(net exposure) relating to the Structured Entity:	7,311	7,560

Non-contractual financial support provided

Council did not provide any non contractual support to NERAM.

Current intention to provide financial support

Council's current position is to maintain support and contributions in accordance with the 20 year funding agreement which commenced on 15 April 2009 and concludes on 14 April 2028.

Under the funding agreement, the commencement funding amount is \$265,000 per annum plus GST, increased on each anniversary date by what is commonly referred to as the rate pegging percentage for Council.

Council also provides 'in kind' support to NERAM in terms of a lease of the building and maintenance of the land upon which NERAM is located, capped at a dollar value of \$10,000 per annum indexed to CPI.

3. New England Joint Organisation (NEJO)

The New England Joint Organisation ("NEJO") was established on 11 May 2018 and is a separately constituted entity pursuant to Part 7 (Sections 400O to 400ZH) of the Local Government Act (NSW) 1993, as amended, and the Local Government (General) Regulation 2008.

The principal purpose of the NEJO is to establish strategic regional priorities and to provide regional leadership to the geographical area for which it serves, and to identify and take up opportunities for intergovernmental cooperation on matters relating to the joint organisation area.

The NEJO comprises seven voting member councils: Armidale Regional Council, Glen Innes Severn Council, Inverell Shire Council, Moree Plains Shire Council, Narrabri Shire Council, Tenterfield Shire Council and Uralla Shire Council.

The Board of the NEJO consists of the Mayors of each Member Council, who are entitled to one (1) vote at Meetings, and a non-voting representative of the NSW Government, who is the Regional Director of the Department of Premier and Cabinet.

The Chairperson is to be elected by the voting representatives of the Board from one (1) of the Mayoral representatives. The Chairperson does not have a casting vote.

A decision of the Board is supported by a majority at which a quorum is present.

Armidale Regional Council, as a member of the NEJO, has a one-seventh voting right in respect to the decisions of the Board.

Decision making is based on majority votes, so Council does not have control, joint control or significant influence over relevant activities of the organisation.

In accordance with the NEJO's Charter, each member is required to contribute annual fees towards the operation of the organisation. In the 2018/2019 financial year, the contribution made by each council was \$5,000. The contribution for the 2019/2020 financial year has been set at \$5,000 in the Operational Plan of the NEJO.

For the year ended 30 June 2019, the NEJO's net operating result was \$272,563. Council is not entitled to any share of distribution of the NEJO's net operating result.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Commitments

\$ '000	2019	2018
(a) Capital commitments (exclusive of GST)		
Capital expenditure committed for at the reporting date but not recognised in the financial statements as liabilities:		
Property, plant and equipment		
Buildings	–	31
Plant and equipment	1,523	197
Bridges	–	661
Other	2,726	–
Total commitments	4,249	889
These expenditures are payable as follows:		
Within the next year	4,249	889
Total payable	4,249	889
Sources for funding of capital commitments:		
Unrestricted general funds	–	31
Unexpended grants	–	661
Externally restricted reserves	2,726	197
Internally restricted reserves	1,523	–
Total sources of funding	4,249	889

Details of capital commitments

For each of the commitments, tenders have been called and orders placed prior to year end, with an expectation of delivery early during the 2019/20 year.

(b) Finance lease commitments

Council is not party to any finance lease arrangements.

(c) Operating lease commitments (non-cancellable)

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

Within the next year	165	193
Later than one year and not later than 5 years	99	402
Later than 5 years	766	–
Total non-cancellable operating lease commitments	1,030	595

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

Operating leases exist for:

- (1) the provision of all photocopiers throughout all Council offices and facilities; and
- (2) property relating to certain transfer stations/landfill operations, carparking, land access crossings, communication towers and access to those facilities and several community service arrangements.

Conditions relating to finance and operating leases:

All operating lease agreements are secured only against the leased asset.

No lease agreements impose any financial restrictions on Council regarding future debt.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

Council contributes to a Defined Benefit Superannuation Plan under the Local Government Superannuation Scheme, named The Local Government Superannuation Scheme – Pool B ("the Scheme"). The Scheme is a defined benefit superannuation 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 Scheme.

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

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

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

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

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

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.

There is no relief under the Scheme's trust deed for employers to relinquish their defined benefit obligations. Under limited circumstances, an employer may withdraw from the Scheme 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 Scheme'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 ended 30 June 2019 was \$476,450. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and relates to the period ended 30 June 2018.

Notes to the Financial Statements

for the year ended 30 June 2019

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

The amount of additional contributions included in the total employer contribution advised above is \$225,340. Council's expected contribution to the Scheme for the next annual reporting period is \$449,301.

The estimated employer reserves in the Scheme for the Pooled Employers at 30 June 2019 is:

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

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

The share of this surplus that is broadly attributed to Council is estimated to be in the order of 0.59% or \$39,530 as at 30 June 2019.

Council's share of that surplus 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 any deficiency or gain for any surplus is recognised in Council's accounts. Council has a possible obligation that may arise should the Scheme require immediate payment to correct any future 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.

(ii) Statewide Mutual

Council is a member of Statewide Mutual, a mutual pool scheme providing liability insurance to local government.

Membership includes the potential to share in either the net assets or liabilities of the Mutual depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the Mutual pool and the result of insurance claims within each of the Mutual years.

The future realisation and finalisation of claims incurred but not reported to 30 June 2019 may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

(iii) StateCover Mutual Limited

Council is a member of StateCover Mutual Limited and holds a partly paid share in the entity.

StateCover Mutual Limited is a public company providing workers compensation insurance cover to the NSW local government industry and specifically Council.

Council has a contingent liability to contribute further equity in the event of the erosion of the company's capital base as a result of the company's past performance and/or claims experience or as a result of any increased prudential requirements from APRA.

These future equity contributions would be required to maintain the company's minimum level of net assets in accordance with its licence requirements.

Notes to the Financial Statements

for the year ended 30 June 2019

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

(iv) Other guarantees

During the 2018/19 year, Council provided a bank guarantee for \$10,000 relating to an easement over an independent party's land.

Council has provided no other guarantees other than those listed above.

2. Other liabilities

(i) Third party claims

The Council is involved from time to time in various claims incidental to the ordinary course of business including claims for damages relating to its services.

Council believes that it is appropriately covered for all claims through its insurance coverage and does not expect any material liabilities to eventuate.

(ii) Potential land acquisitions due to planning restrictions imposed by Council

Council has classified a number of privately owned land parcels as local open space or bushland.

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

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

3. Contingent liabilities

(i) Contingent Remediation Work

Council has identified two sites where future potential remediation work may be required to comply with environmental requirements. At this stage, there is no present obligation for Council to incur costs of remediation. Council is currently working with the relevant authorities to determine the type and extent of future potential remediation work and to make an assessment of the potential costs of the remediation. Detailed site surveys are required before reliable costing estimates can be quantified at this early stage.

The two sites are:

- (1) the former Armidale Gas Works site, which may require certain land and waterway rehabilitation work; and
- (2) the Guyra recycling centre and waste transfer station, previously used as the Guyra Landfill, which may require certain rehabilitation work to ensure the long term capping of the site.

ASSETS NOT RECOGNISED

(i) Infringement notices/fines

Fines and penalty income, the result of Council issuing infringement notices is followed up and collected by the Infringement Processing Bureau.

Council's revenue recognition policy for such income is to account for it as revenue on receipt.

Accordingly, at year end, there is a potential asset due to Council representing issued but unpaid infringement notices.

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. 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.

The fair value of Council's financial assets and financial liabilities approximates their carrying amount.

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	11,040	17,244	11,040	17,244
Receivables	12,684	13,119	12,684	13,119
Investments				
– 'Financial assets at amortised cost' / 'held to maturity' (2018)	58,236	48,120	58,236	48,120
Total financial assets	81,960	78,483	81,960	78,483
Financial liabilities				
Payables	6,736	8,788	6,736	8,788
Loans/advances	26,763	29,730	26,763	29,730
Total financial liabilities	33,499	38,518	33,499	38,518

Fair value is determined as follows:

- **Cash and cash equivalents, receivables, payables** – are estimated to be the carrying value that approximates market value.
- **Borrowings and held-to-maturity investments** – are based upon estimated future cash flows discounted by the current market interest rates applicable to assets and liabilities with similar risk profiles, unless quoted market prices are available.
- Financial assets classified (i) **'at fair value through profit and loss'** or (ii) **'available-for-sale'** – are based upon quoted market prices (in active markets for identical investments) at the reporting date or independent valuation.

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 Ministerial 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 the 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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

- **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.

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	582	582	(582)	(582)
2018				
Possible impact of a 1% movement in interest rates	653	653	(653)	(653)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

(b) Credit risk

Council's major receivables comprise (i) rates and annual charges and (ii) user charges and fees.

Council manages the credit risk associated with these receivables by monitoring outstanding debt and employing stringent debt recovery procedures. Council also encourages ratepayers to pay their rates by the due date through incentives.

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.

There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

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

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

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

Credit risk profile

Receivables – rates and annual charges

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

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	–	1,115	391	246	–	1,752
2018						
Gross carrying amount	443	475	323	300	346	1,887

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	6,165	2,213	474	1,163	1,366	11,381
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	16.55%	1.99%
ECL provision	–	–	–	–	226	226
2018						
Gross carrying amount	8,252	396	74	709	2,081	11,512
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ECL provision	–	–	–	–	–	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Financial risk management (continued)

(c) Liquidity risk

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

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

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

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

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
2019							
Trade/other payables	0.00%	–	6,736	–	–	6,736	6,736
Loans and advances	5.42%	–	4,441	19,051	11,248	34,740	26,763
Total financial liabilities		–	11,177	19,051	11,248	41,476	33,499
2018							
Trade/other payables	0.00%	2,088	1,305	–	–	3,393	8,788
Loans and advances	4.53%	–	4,623	16,787	18,049	39,459	29,730
Total financial liabilities		2,088	5,928	16,787	18,049	42,852	38,518

Loan agreement breaches

No breaches of any loan agreements occurred during the year.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 27 June 2018 and is unaudited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
Rates and annual charges	31,867	32,256	389	1% F
User charges and fees	18,273	21,334	3,061	17% F
Water usage charges are \$965k over the original budget due to a combination of higher usage charges and increased water usage. The budget was also set relatively conservatively for these charges given historic usage patterns.				
Airport user fees produced an overall result that was \$439k over the original budget. Most fee categories exceeded the original budget and the introduction of paid parking at the airport during the financial year has also contributed to this result.				
RMS income is \$2.2m over the original budget. This result is offset by an increase in expenditure associated with works on state roads.				
Aged care income was \$563k under the original budget due to the change in arrangements for Kolora aged care facilities during the financial year.				
Interest and investment revenue	1,200	1,973	773	64% F
Interest from investments is showing a positive variation due to a higher level of cash held than originally forecast.				
Other revenues	2,734	3,162	428	16% F
The main reason for the favourable result in other revenues relates to the diesel fuel rebate, which was originally budgeted for within expenditure. As the rebate income was \$387k this has produced a positive result when compared against the original budget.				
Operating grants and contributions	13,148	14,691	1,543	12% F
Council did not originally budget for the full value of operating grants it ultimately received in 2018-19. The main additional grant income received related to Roads to Recovery \$1.3m and financial assistance grant income was around \$514k higher than the original budget.				
Capital grants and contributions	14,660	16,230	1,570	11% F
Council did not originally budget for all capital grants it ultimately received in 2018-19. The main additional grants received relate to drought funding (\$1.3m) and RMS infrastructure upgrades (\$830k).				
Reversal of revaluation decrements / impairment of IPP&E previously expensed	-	-	-	∞ F
EXPENSES				
Employee benefits and on-costs	24,363	24,385	(22)	0% U
Borrowing costs	1,618	1,654	(36)	(2)% U

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
Materials and contracts	19,136	18,750	386	2% F
Depreciation and amortisation	16,806	18,198	(1,392)	(8)% U
Other expenses	9,127	9,632	(505)	(6)% U
The provision for doubtful debts was reviewed resulting in an adjustment to the provision that was \$348k higher than the original budget.				
Net losses from disposal of assets	-	1,102	(1,102)	∞ U
Council did not originally budget for any losses on disposal of assets and the disposal of property has produced an unfavourable result in the financial year.				
Revaluation decrement / impairment of IPP&E	-	608	(608)	∞ U
Council did not originally budget for revaluation movements and some impairment losses have been realised.				

STATEMENT OF CASH FLOWS

Net cash provided from (used in) operating activities	28,024	33,685	5,661	20% F
The positive variation predominantly relates to a higher level of user charges and fees and grants received over the original budget.				
Net cash provided from (used in) investing activities	(18,238)	(36,922)	(18,684)	102% U
The negative variation predominantly relates to the movement recorded between cash and investments during the period. While the overall cash and investment level has increased, the reclassification of funds between cash and investments causes a movement to be recorded in the statement of cash flows to reflect this.				
Net cash provided from (used in) financing activities	(2,797)	(2,967)	(170)	6% U

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

Note 21. Fair Value Measurement

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

- Infrastructure, property, plant and equipment

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

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

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

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

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

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

2019	Notes	Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Infrastructure, property, plant and equipment						
	10(a)					
Operational Land		30/6/18	–	–	21,312	21,312
Community Land		30/6/18	–	–	19,882	19,882
Land Under Roads		30/6/19	–	–	721	721
Buildings (specialised and non-specialised)		30/6/18	–	–	65,164	65,164
Infrastructure Assets		30/6/17	–	–	715,043	715,043
Other Assets (excludes Landfill & quarry assets also carried at cost)			–	–	10,709	10,709
Total infrastructure, property, plant and equipment			–	–	832,831	832,831

2018	Notes	Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements						
Infrastructure, property, plant and equipment						
	10(a)					
Operational Land		30/06/18	–	–	21,815	21,815
Community Land		30/06/18	–	–	19,913	19,913
Land Under Roads			–	–	–	–
Buildings (specialised and non-specialised)		30/06/18	–	–	68,395	68,395
Infrastructure Assets		30/06/17	–	–	715,607	715,607
Other Assets (excludes Landfill & quarry assets also carried at cost)			–	–	11,399	11,399
Total infrastructure, property, plant and equipment			–	–	837,129	837,129

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

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

Pre-amble

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:

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

Operational Land

This asset class comprises all of Council's land classified as Operational Land under the NSW Local Government Act 1993. The key unobservable input to the valuation is the price per square metre. Generally, fair value is the most advantageous price reasonably obtainable by the seller and the most advantageous price reasonably obtained by the buyer. This is not necessarily the market selling price of the asset, rather, it is regarded as the maximum value that Council would rationally pay to acquire the asset if it did not hold it, taking into account quoted market price in an active and liquid market, the current market price of the same or similar asset, the cost of replacing the asset, if management intend to replace the asset, the remaining useful life and condition of the asset; and cash flows from the future use and disposal.

Community Land

Valuations of all Council's Community Land and Council managed land were based on either the Unimproved Capital Value (UCV) provided by the Valuer-General or an average unit rate based on the UCV for similar properties where the Valuer-General did not provide a UCV having regard to the highest and best use for this land. As these rates were not considered to be observable market evidence they have been classified as Level 3.

Community Land was brought in at fair value following the engagement of an external, independent and qualified valuer to determine the fair value of Community Land at 30 June 2018.

Buildings

The approach taken with buildings, estimated the replacement cost of each building by componentising the buildings into significant parts with different useful lives and taking into account a range of factors. While all buildings were physically inspected and the unit rates based on square metres could be supported from market evidence (Level 2), other inputs (such as obsolescence) require extensive professional judgement, and impact significantly on the final determination of fair value. In forming valuations of each building, the market to which the asset could be sold in was taken into account and compared back against the cost. Many of the buildings council owns are specific purpose and valued using current replacement cost approach, and as such, these assets were classified as having been valued using Level 3 valuation inputs.

Buildings were brought in at fair value following the engagement of an external, independent and qualified valuer to determine the fair value of Buildings at 30 June 2018.

Infrastructure Assets (Roads, Bridges, Footpaths, Bulk Earthworks, Stormwater Drainage, Water Supply Network, Sewerage Network, Other Structures and Other Assets)

Infrastructure assets are specialised assets which do not have an active market. Therefore, in determining the fair value Council uses current replacement cost approach. This valuation approach requires consideration of the following factors (valuation techniques): (1) Appropriate componentisation of complex assets; (2) Unit rates for each component based on the on-cost to a market participant buyer; and (3) Condition assessment (obsolescence).

Transport Assets (Roads, Bridges, Footpaths, Bulk Earthworks and Stormwater Drainage) were last revalued by merged councils using internal and credible external valuers at 30 June 2015. In bringing in these assets into the Council, the assets underwent additional desk revaluation with the help of the independent, external valuer at 12 May 2016.

Water and Sewerage Infrastructure Assets were revalued at 30 June 2017 by an independent, external valuer.

Other Structures and Other Assets were brought in at fair value from merged councils which engaged external, independent valuers to determine the fair value at 12 May 2016.

Other Assets (Plant & Equipment, Office Equipment, Heritage Collections and Artworks)

Other Assets are not revalued every five years. The depreciated cost of the asset category is considered a close proxy for fair value.

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Fair Value Measurement (continued)

(3) Fair value measurements using significant unobservable inputs (level 3)

a. The following tables present the changes in level 3 fair value asset classes.

\$ '000	Operational land	Community land	Buildings	Infrastructure assets	Other assets	Total
2018						
Opening balance	25,916	11,117	51,078	709,318	12,331	809,760
Transfers from/(to) another asset class	(3,263)	3,263	9,915	1,425	18	11,358
Purchases (GBV)	213	334	10,066	10,373	2,117	23,103
Disposals (WDV)	–	–	(3,865)	(1,719)	(1,054)	(6,638)
Depreciation and impairment	–	–	(2,954)	(11,442)	(2,013)	(16,409)
FV gains – other comprehensive income	392	8,204	3,958	5,133	–	17,687
Revaluation Losses - Income Statement	(1,443)	(3,005)	197	2,519	–	(1,732)
Closing balance	21,815	19,913	68,395	715,607	11,399	837,129
2019						
Opening balance	21,815	19,913	68,395	715,607	11,399	837,129
Transfers from/(to) another asset class	–	–	(779)	1,414	–	635
Purchases (GBV)	–	–	948	8,024	2,012	10,984
Disposals (WDV)	(503)	(31)	(316)	(2,313)	(595)	(3,758)
Depreciation and impairment	–	–	(3,084)	(13,050)	(2,107)	(18,241)
FV gains – other comprehensive income	–	–	–	6,082	–	6,082
Closing balance	21,312	19,882	65,164	715,764	10,709	832,831

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

Note 22. Related Party Transactions

(a) Key management personnel

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

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

\$ '000	2019	2018
Compensation:		
Short-term benefits	1,104	1,008
Post-employment benefits	69	61
Other long-term benefits	31	16
Total	1,204	1,085

(b) Other transactions with KMP and their related parties

Other transactions that occur between KMP and their related parties and Council, as part of Council delivering a public service objective (e.g. access by KMP to use library facilities or Council swimming pools), occur on an arm's length basis, with no additional benefits being provided to KMP over and above those benefits provided to the public.

There are no other disclosures to be made by KMP.

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

Note 23. Events occurring after the reporting date

Council is aware of the following 'non-adjusting event' that merits disclosure:

Tingha Boundary Adjustment

Effective 1 July 2019, the boundary of Council was adjusted by proclamation and the Locality of Tingha became included in the Local Government Area of Inverell Shire Council. Effective 1 July 2019, all property recorded by Council as relating to the Locality of Tingha transferred to Inverell Shire Council for nil consideration.

A summary of the written down value of property that transferred to Inverell Shire Council effective 1 July 2019 for nil consideration is as follows. The financial statements of Council will reflect a disposal of the following items for the year ending 30 June 2020, with a corresponding loss on disposal.

Asset Category	\$'000
Operational Land	351
Community Land	21
Buildings	1,044
Other Structures	20
Water assets	2,690
Sewer assets	4,731
Other assets	69
Roads	17,880
Bulk earthworks	2,525
Bridges	249
Footpaths	355
Stormwater drainage	3,187
	<hr/>
Total Assets	33,122
	<hr/>

At 30 June 2019, Council was owed a balance of \$208,438 which related to unpaid 2018/19 rates for Tingha Locality ratepayers. This amount was remitted by the Tingha Locality ratepayers to Inverell Shire Council and Inverell Shire Council remitted the amount to Council on 2 July 2019.

For the year ending 30 June 2020, as a result of the Tingha Boundary Adjustment, Council's rates revenue will be reduced by approximately \$189,000.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. 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

\$ '000	as at 30/6/2018						as at 30/6/2019	
	Opening Balance	Contributions received during the year		Interest earned in year	(Expenditure) & Other Adjustments during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	41	–	–	1	3	–	45	–
Roads	546	182	–	17	41	–	786	–
Traffic facilities	17	–	–	–	1	–	18	–
Parking	–	29	–	1	2	–	32	–
Open space	369	–	–	9	(49)	–	329	–
Community facilities	118	–	–	2	(68)	–	52	–
Other	7	–	–	–	1	–	8	–
Bushfire	1	–	–	–	–	–	1	–
Street Trees	1	8	–	1	71	–	81	–
S7.11 contributions – under a plan	1,100	219	–	31	2	–	1,352	–
S7.12 levies – under a plan	702	209	–	21	45	–	977	–
Total S7.11 and S7.12 revenue under plans	1,802	428	–	52	47	–	2,329	–
S7.4 planning agreements	81	–	–	1	(28)	–	54	–
S64 contributions	2,572	705	–	77	65	–	3,419	–
Total contributions	4,455	1,133	–	130	84	–	5,802	–

S7.11 Contributions – under a plan

CONTRIBUTION PLAN

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

Note 24. Statement of developer contributions (continued)

\$ '000	as at 30/6/2018			Interest earned in year	(Expenditure) & Other Adjustments during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Contributions received during the year					Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	41	–	–	1	3	–	45	–
Roads	546	182	–	17	41	–	786	–
Traffic facilities	17	–	–	–	1	–	18	–
Bridges	–	29	–	1	2	–	32	–
Open space	369	–	–	9	(49)	–	329	–
Community facilities	118	–	–	2	(68)	–	52	–
Bushfire	1	–	–	–	–	–	1	–
Street Trees	1	8	–	1	71	–	81	–
Other	7	–	–	–	1	–	8	–
Total	1,100	219	–	31	2	–	1,352	–

S7.12 Levies – under a plan

CONTRIBUTION PLAN

Other	702	209	–	21	45	–	977	–
Total	702	209	–	21	45	–	977	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	24,689	2,227	5,340
User charges and fees	11,847	9,320	167
Interest and investment revenue	835	739	399
Other revenues	2,362	64	736
Grants and contributions provided for operating purposes	14,691	–	–
Grants and contributions provided for capital purposes	5,697	10,064	469
Total income from continuing operations	60,121	22,414	7,111
Expenses from continuing operations			
Employee benefits and on-costs	21,017	1,968	1,400
Borrowing costs	1,317	334	3
Materials and contracts	11,504	4,856	2,390
Depreciation and amortisation	12,789	3,201	2,208
Other expenses	8,352	582	698
Net losses from the disposal of assets	634	383	85
Revaluation decrement /impairment of IPPE	608	–	–
Total expenses from continuing operations	56,221	11,324	6,784
Operating result from continuing operations	3,900	11,090	327
Net operating result for the year	3,900	11,090	327
Net operating result attributable to each council fund	3,900	11,090	327
Net operating result for the year before grants and contributions provided for capital purposes	(1,797)	1,026	(142)

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 25. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	11,040	–	–
Investments	14,474	28,305	15,457
Receivables	8,960	2,423	974
Inventories	541	–	305
Other	171	–	–
Non-current assets classified as 'held for sale'	921	–	–
Total current assets	36,107	30,728	16,736
Non-current assets			
Receivables	327	–	–
Infrastructure, property, plant and equipment	581,048	170,885	108,057
Total non-current assets	581,375	170,885	108,057
TOTAL ASSETS	617,482	201,613	124,793
LIABILITIES			
Current liabilities			
Payables	6,618	118	–
Income received in advance	1,200	–	–
Borrowings	2,676	266	20
Provisions	7,434	–	–
Total current liabilities	17,928	384	20
Non-current liabilities			
Borrowings	19,305	4,493	3
Provisions	4,563	–	–
Total non-current liabilities	23,868	4,493	3
TOTAL LIABILITIES	41,796	4,877	23
Net assets	575,686	196,736	124,770
EQUITY			
Accumulated surplus	562,411	190,477	120,535
Revaluation reserves	13,275	6,259	4,235
Council equity interest	575,686	196,736	124,770
Total equity	575,686	196,736	124,770

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	<u>797</u>				
Total continuing operating revenue excluding capital grants and contributions ¹	<u>73,416</u>	1.09%	(8.73)%	12.35%	>0.00%
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	<u>58,352</u>				
Total continuing operating revenue ¹	<u>89,646</u>	65.09%	71.27%	59.54%	>60.00%
3. Unrestricted current ratio					
Current assets less all external restrictions	<u>19,967</u>				
Current liabilities less specific purpose liabilities	<u>8,330</u>	2.40x	1.53x	2.21x	>1.50x
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	<u>20,649</u>				
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	<u>4,621</u>	4.47x	2.81x	6.00x	>2.00x
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	<u>1,897</u>				
Rates, annual and extra charges collectible	<u>34,364</u>	5.52%	6.86%	6.81%	<10.00%
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	<u>69,276</u>				
Monthly payments from cash flow of operating and financing activities	<u>5,511</u>	12.57 mths	13.37 mths	14.40 mths	>3.00 mths

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 26(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1,2}	(1.02)%	(21.95)%	11.41%	29.00%	(0.86)%	6.84%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	65.71%	62.04%	54.78%	96.03%	92.43%	94.67%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	2.40x	2.08x	74.50x	65.65x	760.30x	707.65x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	3.53x	0.73x	7.59x	12.30x	102.75x	103.25x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	2.90%	4.12%	7.18%	8.84%	15.51%	17.10%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	5.34	10.70	61.31	23.59	56.86	25.66	>3.00
Payments from cash flow of operating and financing activities	mths	mths	mths	mths	mths	mths	mths

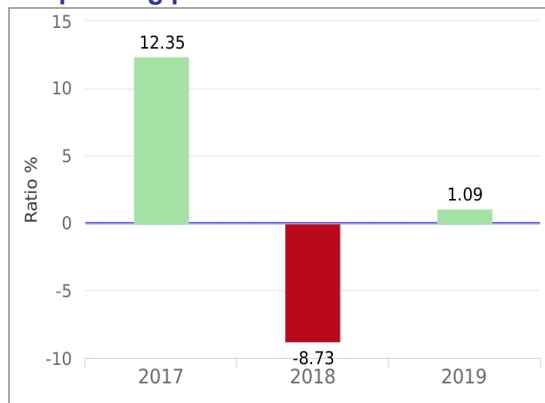
(1) - (2) Refer to Notes at Note 28a above.

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

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

Note 26(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

This ratio measures Council's achievement of containing operating expenditure within operating revenue.

Commentary on 2018/19 result

2018/19 ratio 1.09%

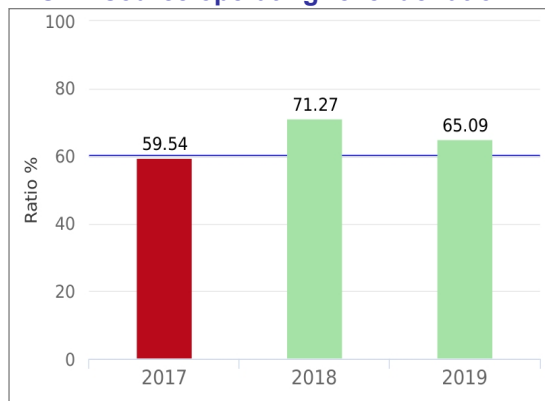
The 2019 operating result is a significant improvement to the operating deficit that was originally budgeted due to the reduction in overall spending and improvement in some revenue items that has been achieved during the 2018-19 financial year.

Benchmark: — > 0.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark (Green bar)
Ratio is outside benchmark (Red bar)

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

This ratio measures fiscal flexibility. It is the degree of reliance on external funding sources such as operating grants and contributions.

Commentary on 2018/19 result

2018/19 ratio 65.09%

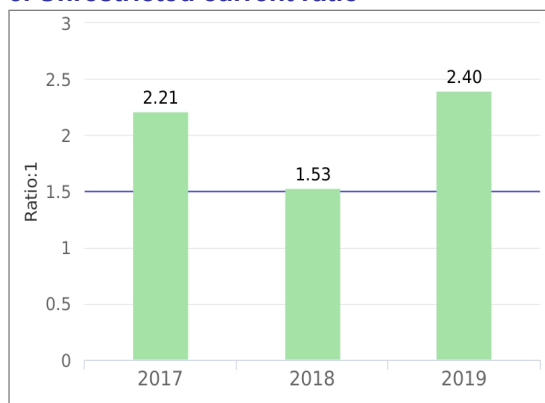
This ratio is impacted by the level of grants and contributions received and is slightly lower in 2019 than the previous year due to a higher level of operating grants received.

Benchmark: — > 60.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark (Green bar)
Ratio is outside benchmark (Red bar)

3. Unrestricted current ratio



Purpose of unrestricted current ratio

To assess the adequacy of working capital and its ability to satisfy obligations in the short term for the unrestricted activities of Council.

Commentary on 2018/19 result

2018/19 ratio 2.40x

This ratio has improved from the previous year where it just reached the minimum level recommended by the Office of Local Government. The improvement in this ratio is as a result of strategies introduced during the 2018-19 financial year to improve the operating result and cash position.

Benchmark: — > 1.50x

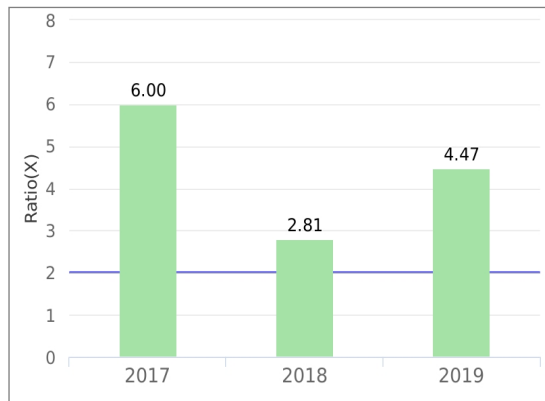
Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark (Green bar)
Ratio is outside benchmark (Red bar)

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

Note 26(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

This ratio measures the availability of operating cash to service debt including interest, principal and lease payments

Commentary on 2018/19 result

2018/19 ratio 4.47x

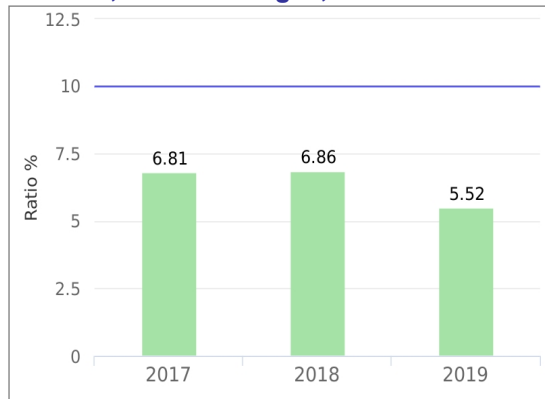
This ratio has improved from the previous year due to the improvement in the operating result.

Benchmark: — > 2.00x

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark
Ratio is outside benchmark

5. Rates, annual charges, interest and extra charges outstanding percentage



Purpose of rates, annual charges, interest and extra charges outstanding

To assess the impact of uncollected rates and annual charges on Council's liquidity and the adequacy of recovery efforts.

Commentary on 2018/19 result

2018/19 ratio 5.52%

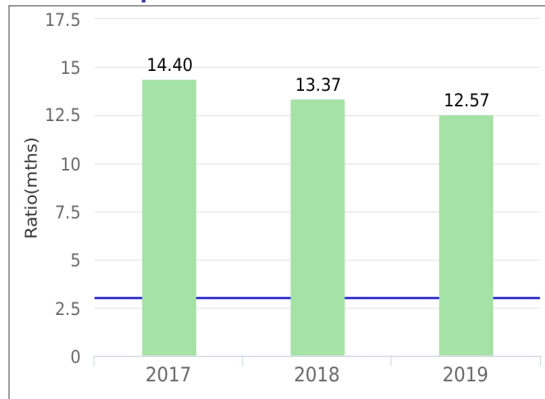
This ratio has improved from the previous year as Council undertook a sale of land process to recover unpaid rates during the 2018-19 financial year, and this assisted with reducing the level of outstanding debt.

Benchmark: — < 10.00%

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark
Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

This liquidity ratio indicates the number of months a Council can continue paying for its immediate expenses without additional cash inflow.

Commentary on 2018/19 result

2018/19 ratio 12.57 mths

This ratio has slightly improved from the previous year but has remained at a fairly similar level over time. This is a consolidated result also covering water and sewerage funds. The majority of cash held is for restricted activities and not available for general use. Note 6(c) contains details of these restrictions.

Benchmark: — > 3.00mths

Source of benchmark: Code of Accounting Practice and Financial Reporting #27

Ratio achieves benchmark
Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying financial statements of Armidale Regional Council (the Council), which comprise the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2019, the Statement of Financial Position as at 30 June 2019, the Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Statement by Councillors and Management.

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 presented, 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 2019, 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' (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 2019 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 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 special purpose financial statements and Special Schedule - Permissible income for general rates.

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 except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

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.

My opinion does not 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 20 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- 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.



Chris Harper
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

31 October 2019
SYDNEY



Cr Simon Murray
Mayor
Armidale Regional Council
PO Box 75A
ARMIDALE NSW 2350

Contact: Chris Harper
Phone no: 02 9275 7374
Our ref: D1925538/1685

31 October 2019

Dear Mayor Murray

**Report on the Conduct of the Audit
for the year ended 30 June 2019
Armidale Regional Council**

I have audited the general purpose financial statements (GPFS) of Armidale Regional Council (the Council) for the year ended 30 June 2019 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 2019 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

	2019	2018	Variance
	\$m	\$m	%
Rates and annual charges revenue	32.3	31.0	↑ 4.2
Grants and contributions revenue	30.9	21.7	↑ 42.4
Operating result for the year	15.3	(3.2)	↑ 578
Net operating result before capital grants and contributions	(0.9)	(11.9)	↑ 92.4

Council's operating surplus of \$15.3 million (including the effect of depreciation and amortisation expense of \$18.2 million) was \$18.5 million higher than the 2017–18 result. This was mainly due to:

- a \$5.0 million reduction in net losses from the disposal of assets resulting from disposals of \$3.8 million in 2017-18 to clean up the buildings asset register and \$1.4 million of gains made from disposals of land and buildings and plant and equipment in 2018-19
- increased revenue from grants and contributions of \$9.2 million because of funding received for the Malpas dam water pipeline, an increase for roads to recovery projects and some other miscellaneous one-off grants, offset by a reduction in funding received for completed projects including the Armidale airport upgrade and cessation of funding for Kolara Aged Care Home
- increased revenue from rates, annual charges and user charges and fees of \$3.3 million resulting from rate peg increases and increased water usage due to the drought.

The net operating deficit before capital grants and contributions of \$913,000 was \$11.0 million higher than 2017–18. This is mainly due to the reduction in net losses from disposal of assets and increased revenue from rates, annual charges and user charges and fees. Overall expenditure for materials and contracts and other expenses also decreased by \$2.1 million and \$1.5 million respectively.

Rates and annual charges revenue of \$32.3 million increased by \$1.3 million (4.2 per cent) in 2018–19. This was due to rate peg increases and higher annual charges to cover growth in underlying costs for sewer and domestic waste operations.

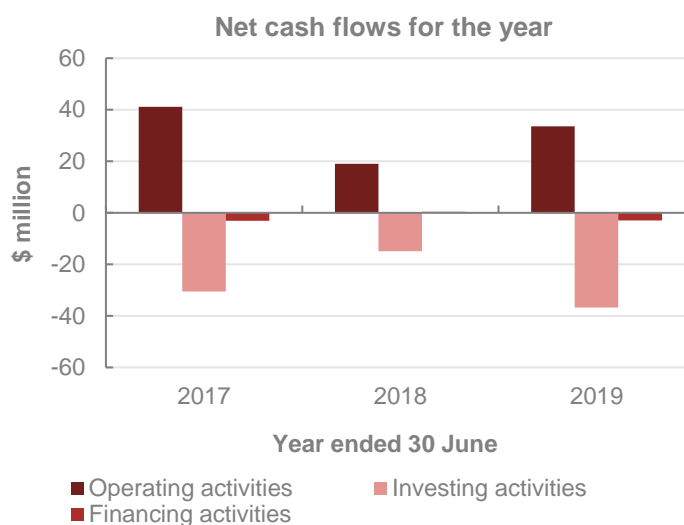
Grants and contributions revenue of \$30.9 million was \$9.2 million higher than 2017–18 due to the reasons stated above.

STATEMENT OF CASH FLOWS

Cash flows from operating activities increased due to additional grants and contributions received during 2018-19.

Cash flows used in investing activities represented an increase in investments partially offset by proceeds from sale of property, plant and equipment in 2018-19.

Cash flows used in financing activities relate to repayment of borrowings.



FINANCIAL POSITION

Cash and investments

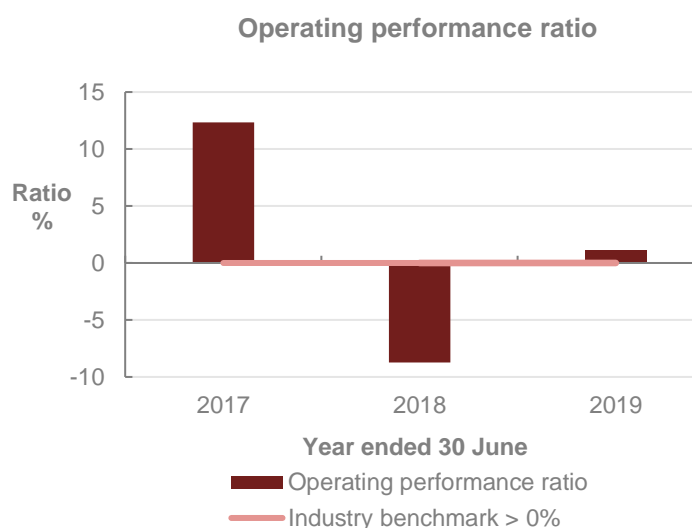
Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	59.7	61.4	• Major external cash restrictions include water, sewer, developer contributions for specific purposes and the Council's trust bank account.
Internal restrictions	7.7	2.5	
Unrestricted	1.9	1.5	• Major internal restrictions related to reserves to employee leave entitlements and carry over works.
Cash and investments	69.3	65.4	• Internal restrictions increased mainly due to the creation of a carry over works restriction account to manage outstanding capital works.

PERFORMANCE

Operating performance ratio

The operating performance ratio increased mainly due to an increase in the 2018-19 operating result. This was due to a decrease in the loss on disposal of assets, increases to rates, annual charges, user charges and fees and a reduction of material and contracts and other expenditure in 2018-19.

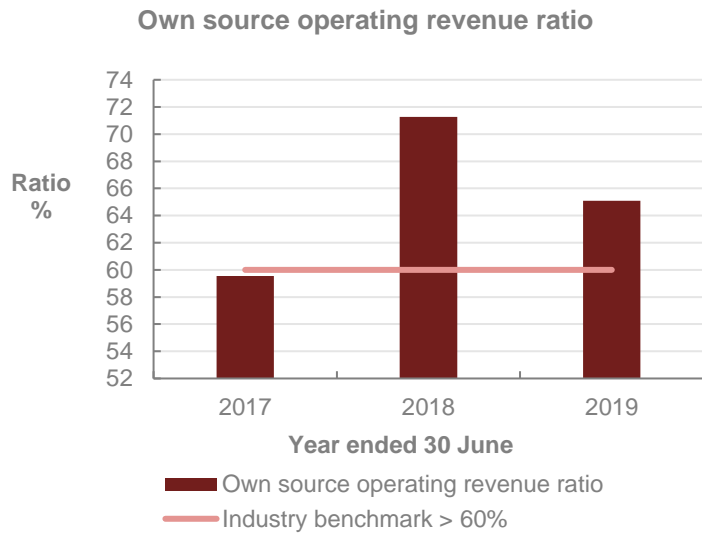
The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater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



Own source operating revenue ratio

Whilst the own source operating revenue ratio has declined compared to 2017-18 (due to increased grants and contributions in 2018-19) it remains above the OLG benchmark.

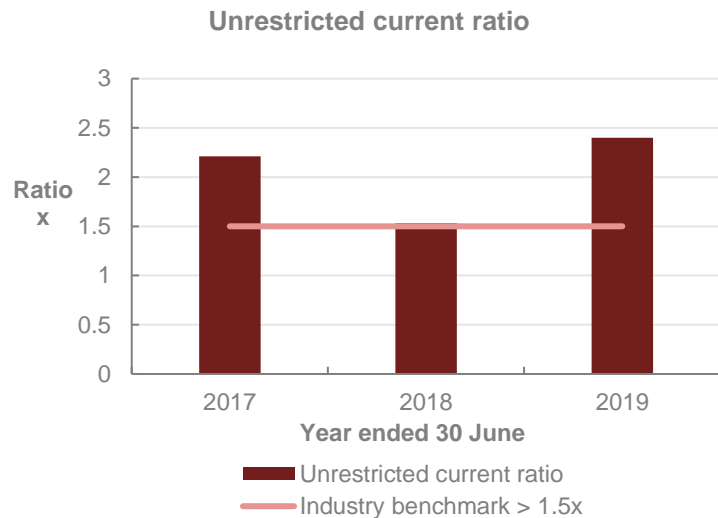
The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the OLG is greater than 60 per cent.



Unrestricted current ratio

Council continues to remain well above the OLG benchmark. The 2018-19 ratio has increased from the prior year because of positive operational cash flows placed into term deposits and other interest earning accounts.

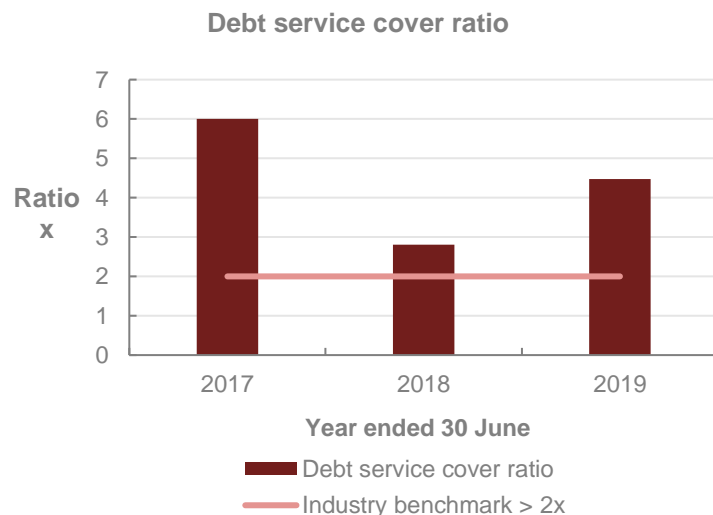
The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the OLG is greater than 1.5 times.



Debt service cover ratio

Council's debt service cover ratio remains well above the OLG benchmark. The 2018-19 ratio has increased due to improved operational cash flows.

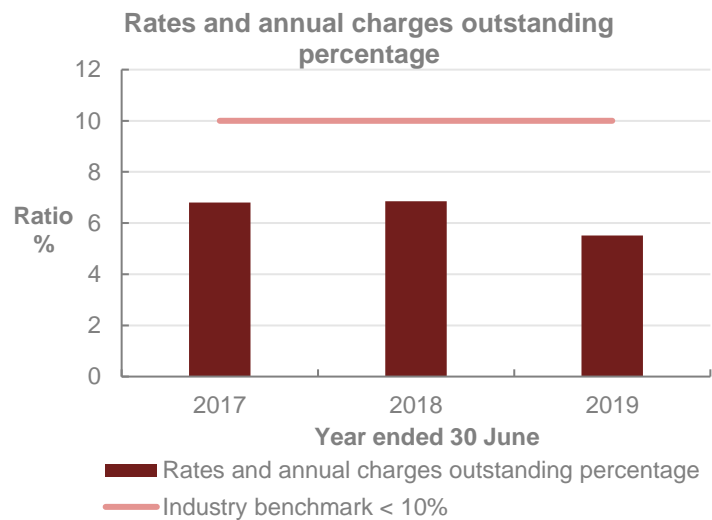
The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the OLG is greater than two times.



Rates and annual charges outstanding percentage

Council's rates and annual charges outstanding ratio remains well within the OLG benchmark. The percentage decreased due to a sale of land process to recover outstanding rates.

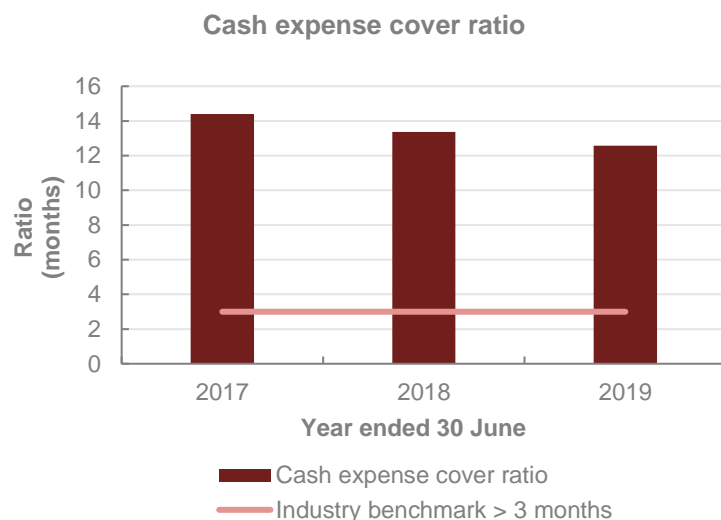
The 'rates and annual charges outstanding percentage' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the OLG is less than 10 per cent for regional and rural councils.



Cash expense cover ratio

The cash expense cover ratio has decreased slightly from 2017-18 due to repayment of borrowings and disbursement of deposits, retentions and bonds related to the Kolora aged care home. The ratio remains well above the OLG benchmark.

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 the OLG is greater than three months.



Infrastructure, property, plant and equipment renewals

Council's Infrastructure, Property, Plant and Equipment (IPPE) renewal expenditure was \$9.3 million in 2018-19, an \$853,000 increase compared to 2017-18. Infrastructure renewals were 49.4 per cent of the depreciation, amortisation and impairment for the year.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none">• a simplified model for classifying and measuring financial assets• a new method for calculating impairment• a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Notes 6 and 7.</p>

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.



Chris Harper
Director, Financial Audit Services

Delegate of the Auditor-General for New South Wales

cc: Ms Susan Law, General Manager
Ms Carolyn Cooper, Chair of the Audit, Risk and Improvement Committee
Ms Kelly Stidworthy, Service Leader – Finance

Armidale Regional Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

Unleash the Opportunities



Special Purpose Financial Statements

for the year ended 30 June 2019

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Auditor's Report on Special Purpose Financial Statements	11

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 2019

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

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

- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- 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 25 September 2019.



Simon Murray
Mayor
25 September 2019



Libby Martin
Deputy Mayor
25 September 2019



Susan Law
Chief Executive Officer
25 September 2019



Kelly Stidworthy
Responsible Accounting Officer
25 September 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	2,227	2,445
User charges	9,307	8,561
Fees	13	80
Interest	739	304
Grants and contributions provided for non-capital purposes	–	73
Other income	64	2,574
Total income from continuing operations	12,350	14,037
Expenses from continuing operations		
Employee benefits and on-costs	1,968	2,540
Borrowing costs	334	360
Materials and contracts	4,856	2,480
Depreciation, amortisation and impairment	3,201	3,049
Loss on sale of assets	383	461
Debt guarantee fee (if applicable)	143	147
Other expenses	582	1,076
Total expenses from continuing operations	11,467	10,113
Surplus (deficit) from continuing operations before capital amounts	883	3,924
Grants and contributions provided for capital purposes	10,064	429
Surplus (deficit) from continuing operations after capital amounts	10,947	4,353
Surplus (deficit) from all operations before tax	10,947	4,353
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(243)	(1,079)
SURPLUS (DEFICIT) AFTER TAX	10,704	3,274
Plus accumulated surplus	179,417	174,917
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	143	147
– Corporate taxation equivalent	243	1,079
Closing accumulated surplus	190,507	179,417
Return on capital %	0.7%	2.7%
Subsidy from Council	1,039	–
Calculation of dividend payable:		
Surplus (deficit) after tax	10,704	3,274
Less: capital grants and contributions (excluding developer contributions)	(9,700)	–
Surplus for dividend calculation purposes	1,004	3,274
Potential dividend calculated from surplus	502	1,637

Income Statement – Sewerage Business Activity
for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	5,340	5,074
User charges	77	54
Liquid trade waste charges	65	68
Fees	25	45
Interest	399	262
Grants and contributions provided for non-capital purposes	–	69
Profit from the sale of assets	–	7
Other income	736	885
Total income from continuing operations	6,642	6,464
Expenses from continuing operations		
Employee benefits and on-costs	1,400	1,565
Borrowing costs	3	–
Materials and contracts	2,390	2,355
Depreciation, amortisation and impairment	2,208	1,623
Loss on sale of assets	85	–
Other expenses	698	479
Total expenses from continuing operations	6,784	6,022
Surplus (deficit) from continuing operations before capital amounts	(142)	442
Grants and contributions provided for capital purposes	469	218
Surplus (deficit) from continuing operations after capital amounts	327	660
Surplus (deficit) from all operations before tax	327	660
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(122)
SURPLUS (DEFICIT) AFTER TAX	327	538
Plus accumulated surplus	120,238	119,578
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	122
Closing accumulated surplus	120,565	120,238
Return on capital %	(0.1)%	0.4%
Subsidy from Council	1,565	2,373
Calculation of dividend payable:		
Surplus (deficit) after tax	327	538
Less: capital grants and contributions (excluding developer contributions)	(129)	–
Surplus for dividend calculation purposes	198	538
Potential dividend calculated from surplus	99	269

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	–	3,063
Investments	28,305	21,632
Receivables	2,423	2,682
Total current assets	30,728	27,377
Non-current assets		
Infrastructure, property, plant and equipment	170,885	160,218
Total non-current assets	170,885	160,218
TOTAL ASSETS	201,613	187,595
LIABILITIES		
Current liabilities		
Payables	118	134
Borrowings	266	252
Provisions	–	9
Total current liabilities	384	395
Non-current liabilities		
Borrowings	4,493	4,759
Total non-current liabilities	4,493	4,759
TOTAL LIABILITIES	4,877	5,154
NET ASSETS	196,736	182,441
EQUITY		
Accumulated surplus	190,477	179,386
Revaluation reserves	6,259	3,055
TOTAL EQUITY	196,736	182,441

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Investments	15,457	13,921
Receivables	974	1,030
Inventories	305	326
Total current assets	<u>16,736</u>	<u>15,277</u>
Non-current assets		
Infrastructure, property, plant and equipment	108,057	107,053
Total non-current assets	<u>108,057</u>	<u>107,053</u>
TOTAL ASSETS	<u>124,793</u>	<u>122,330</u>
LIABILITIES		
Current liabilities		
Borrowings	20	20
Total current liabilities	<u>20</u>	<u>20</u>
Non-current liabilities		
Borrowings	3	24
Total non-current liabilities	<u>3</u>	<u>24</u>
TOTAL LIABILITIES	<u>23</u>	<u>44</u>
NET ASSETS	<u>124,770</u>	<u>122,286</u>
EQUITY		
Accumulated surplus	120,535	120,209
Revaluation reserves	4,235	2,077
TOTAL EQUITY	<u>124,770</u>	<u>122,286</u>

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

1. Water Supplies

Comprising the whole of the operations and assets of water supply systems. As the total annual operating revenues are greater than \$2,000,000 is defined as a category 1 "Business Unit".

2. Sewerage Service

Comprising the whole of the operations and assets of the sewer reticulation and treatment system. As the total annual operating revenues are greater than \$2,000,000 is defined as a category 1 "Business Unit".

Monetary amounts

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

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 27.5%

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

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

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 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.

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.

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2019

Note 1. Significant Accounting Policies (continued)

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

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

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

(iii) Return on investments (rate of return)

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

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

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

The rate of return is calculated as follows:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

Local government water supply and sewerage businesses are permitted to pay an annual dividend from its water supply or sewerage 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 or sewerage assessments at 30 June 2019 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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



INDEPENDENT AUDITOR'S REPORT
Report on the special purpose financial statements
Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying special purpose financial statements (the financial statements) of Armidale Regional Council's (the Council) declared business activities, which comprise the Income Statement of each declared business activity for the year ended 30 June 2019, the Statement of Financial Position of each declared business activity as at 30 June 2019, Note 1 Significant accounting policies for the business activities declared by Council, and the Statement by Councillors and Management.

The declared business activities of the Council are:

- Water Supply
- Sewerage.

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 2019, and its 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 27 (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' (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 2019 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 and Special Schedule 'Permissible income for general rates'.

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, unless it is not appropriate to do so.

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.

My opinion does not 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, appearing to read 'CHarper', with a long, sweeping horizontal stroke extending to the right.

Chris Harper
Director, Financial Audit Services
Delegate of the Auditor-General for New South Wales

31 October 2019
SYDNEY

Armidale Regional Council

SPECIAL SCHEDULES
for the year ended 30 June 2019

Unleash the Opportunities



Special Schedules

for the year ended 30 June 2019

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Permissible income for general rates

		2019/20 Armidale Dumaresq Council	2019/20 Guyra Shire Council	2019/20 Armidale Regional Council	2018/19 Armidale Dumaresq Council	2018/19 Guyra Shire Council	2018/19 Armidale Regional Council
\$ '000							
Notional general income calculation ¹							
Last year notional general income yield	a	15,695	2,909	18,604	15,293	2,837	18,130
Plus or minus adjustments ²	b	91	(344)	(253)	–	–	–
Notional general income	c = a + b	15,786	2,565	18,351	15,293	2,837	18,130
Permissible income calculation							
Or rate peg percentage	e	2.70%	2.70%		2.30%	2.30%	
Or plus rate peg amount	i = e x (c + g)	426	69	495	352	65	417
Sub-total	k = (c + g + h + i + j)	16,212	2,634	18,846	15,645	2,902	18,547
Plus (or minus) last year's carry forward total	l	19	–	19	69	7	76
Sub-total	n = (l + m)	19	–	19	69	7	76
Total permissible income	o = k + n	16,231	2,634	18,865	15,714	2,909	18,623
Less notional general income yield	p	16,156	2,630	18,786	15,695	2,909	18,604
Catch-up or (excess) result	q = o – p	75	5	80	19	–	19
Carry forward to next year ⁶	t = q + r + s	75	5	80	19	–	19

(1) The notional general income will not reconcile with rate income in the financial statements in the corresponding year. The statements are reported on an accrual accounting basis which include amounts that relate to prior years' rates income.

(2) Adjustments account for changes in the number of assessments and any increase or decrease in land value occurring during the year. The adjustments are called 'supplementary valuations' as defined in the Valuation of Land Act 1916.

(6) Carry forward amounts which are in excess (an amount that exceeds the permissible income) require ministerial approval by order published in the NSW Government Gazette in accordance with section 512 of the Local Government Act 1993. The OLG will extract these amounts from Council's Permissible income for general rates Statement in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying Special Schedule – Permissible income for general rates (the Schedule) of Armidale Regional Council (the Council) for the year ending 30 June 2020.

In my opinion, the Schedule is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code), and is in accordance with the books and records of the Council.

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 Schedule' 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' (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 that 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 the special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule 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, special purpose financial statements and Special Schedule 'Report on infrastructure assets as at 30 June 2019'.

My opinion on the Schedule 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 and the special purpose financial statements.

In connection with my audit of the Schedule, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Schedule 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 Schedule

The Councillors are responsible for the preparation of the Schedule in accordance with the LG Code. The Councillors' responsibility also includes such internal control as the Councillors determine is necessary to enable the preparation of the Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Schedule, 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, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

- obtain reasonable assurance whether the Schedule as a whole is 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 Schedule.

A description of my responsibilities for the audit of the Schedule is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar8.pdf. The description forms part of my auditor's report.

My opinion does not 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 Schedule on any website where it may be presented
- about any other information which may have been hyperlinked to/from the Schedule.

A handwritten signature in black ink, appearing to read 'CHarper', with a long horizontal flourish extending to the right.

Chris Harper
Director, Financial Audit Services
Delegate of the Auditor-General for New South Wales

31 October 2019
SYDNEY

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Buildings	Buildings	834	834	2,273	2,481	65,164	120,498	17.0%	11.0%	50.0%	20.0%	2.0%
	Sub-total	834	834	2,273	2,481	65,164	120,498	17.0%	11.0%	50.0%	20.0%	2.0%
Other structures	Other Structures & Other Infrastructure Assets	727	727	3,376	3,579	21,349	30,095	47.0%	35.0%	2.0%	16.0%	0.0%
	Sub-total	727	727	3,376	3,579	21,349	30,095	47.0%	35.0%	2.0%	16.0%	0.0%
Roads	Sealed roads	14,695	14,695	5,866	3,007	134,522	178,714	50.0%	36.0%	13.0%	1.0%	0.0%
	Unsealed roads	2,865	2,865	1,122	2,376	21,312	34,190	46.0%	15.0%	27.0%	7.0%	5.0%
	Bridges	1,067	1,067	376	198	42,294	64,734	38.0%	39.0%	22.0%	1.0%	0.0%
	Footpaths	494	494	250	237	7,918	14,703	53.0%	21.0%	10.0%	9.0%	7.0%
	Other road assets	210	210	1,065	256	21,108	32,433	45.0%	35.0%	7.0%	5.0%	8.0%
	Bulk earthworks	-	-	-	-	152,653	152,653	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	19,331	19,331	8,679	6,074	379,807	477,427	63.8%	22.9%	10.6%	1.6%	1.1%
Water supply network	Water supply network	16,143	16,143	5,332	4,666	153,713	230,050	10.0%	51.0%	36.0%	3.0%	0.0%
	Sub-total	16,143	16,143	5,332	4,666	153,713	230,050	10.0%	51.0%	36.0%	3.0%	0.0%
Sewerage network	Sewerage network	4,318	4,318	3,164	2,644	103,812	141,667	17.0%	49.0%	22.0%	9.0%	3.0%
	Sub-total	4,318	4,318	3,164	2,644	103,812	141,667	17.0%	49.0%	22.0%	9.0%	3.0%
Stormwater drainage	Stormwater drainage	612	612	363	388	49,015	62,456	51.0%	40.0%	8.0%	1.0%	0.0%
	Sub-total	612	612	363	388	49,015	62,456	51.0%	40.0%	8.0%	1.0%	0.0%
Other infrastructure assets	Airport Infrastructure	274	274	929	1,149	7,347	9,334	91.0%	9.0%	0.0%	0.0%	0.0%
	Sub-total	274	274	929	1,149	7,347	9,334	91.0%	9.0%	0.0%	0.0%	0.0%
TOTAL - ALL ASSETS		42,239	42,239	24,116	20,981	780,207	1,071,527	39.8%	32.2%	21.5%	5.3%	1.2%

(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)

Report on Infrastructure Assets - Values (continued)

as at 30 June 2019

2	Good	Only minor maintenance work required
3	Satisfactory	Maintenance work required
4	Poor	Renewal required
5	Very poor	Urgent renewal/upgrading required

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods		Benchmark
			2018	2017	
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	<u>7,270</u>	45.06%	43.74%	44.08%	>=100.00%
Depreciation, amortisation and impairment	<u>16,134</u>				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	<u>42,239</u>	5.41%	8.24%	10.59%	<2.00%
Net carrying amount of infrastructure assets	<u>780,207</u>				
Asset maintenance ratio					
Actual asset maintenance	<u>20,981</u>	87.00%	96.27%	96.26%	>100.00%
Required asset maintenance	<u>24,116</u>				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	<u>42,239</u>	3.94%	4.19%	4.34%	
Gross replacement cost	<u>1,071,527</u>				

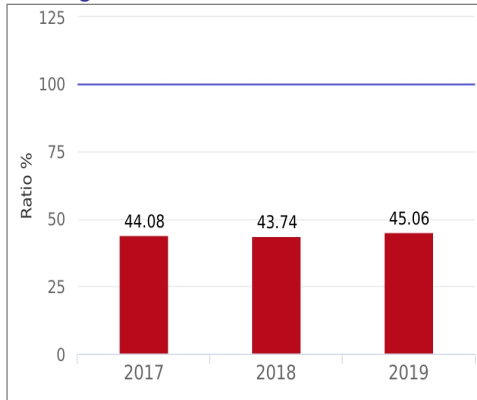
(*) All asset performance indicators are calculated using classes identified in the previous table.

(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)
as at 30 June 2019

Buildings and infrastructure renewals ratio



Buildings and infrastructure renewals ratio

To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

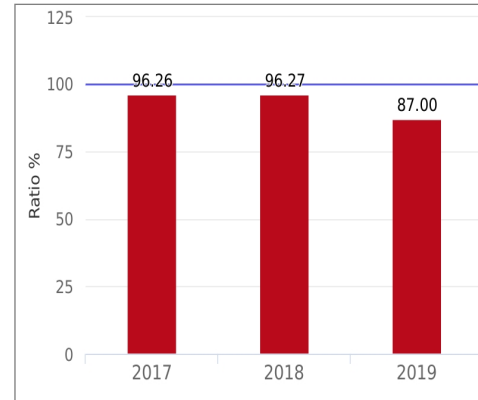
Commentary on result

18/19 ratio 45.06%

Council's ratio has remained steady for the 3 year period, with a slight increase in 2019 due to an increase in infrastructure asset renewal investment (increase of \$1.3m from 2018's infrastructure investment of \$6m to 2019's \$7.3m).

Benchmark: — $\geq 100.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #27 ■ Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

Compares actual vs. required annual asset maintenance. A ratio above 1.0 indicates Council is investing enough funds to stop the infrastructure backlog growing.

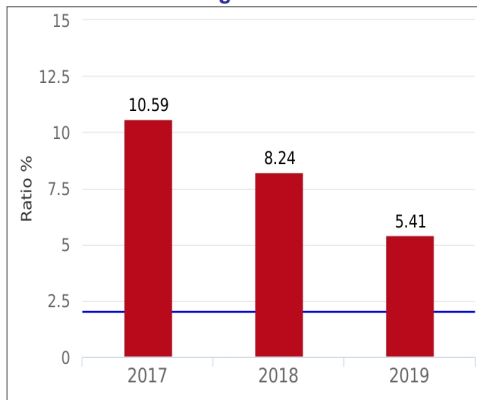
Commentary on result

18/19 ratio 87.00%

As part of tighter fiscal management to improve Council's operating performance for the 2019 year, the asset maintenance ratio has reduced. This is to be taken in the context of the \$1.3m increase in infrastructure asset renewal investment from 2018 to 2019 noted above.

Benchmark: — $> 100.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #27 ■ Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

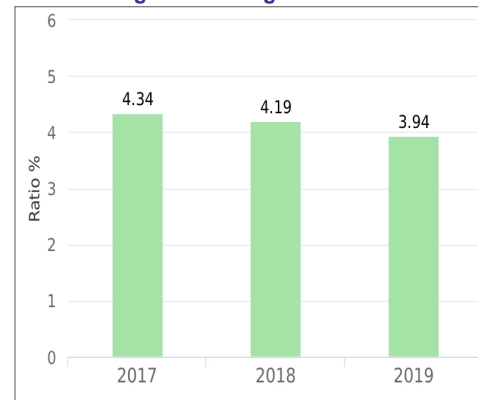
Commentary on result

18/19 ratio 5.41%

The reduction in the ratio is primarily due to the addition of other infrastructure assets to the infrastructure asset base. While the backlog amount (numerator in the ratio formula) included reference to the additional infrastructure assets, the prior year asset base (denominator in the ratio formula) did not include the additional infrastructure assets. The backlog amount is spread over a wider asset base, resulting in a reduction in the ratio.

Benchmark: — $< 2.00\%$ ■ Ratio achieves benchmark
 Source of benchmark: Code of Accounting Practice and Financial Reporting #27 ■ Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

This ratio provides a snapshot of the proportion of outstanding renewal works compared to the total value of assets under Council's care and stewardship.

Commentary on result

18/19 ratio 3.94%

The reduction in the ratio in 2019 is a combination of the additional infrastructure investment in 2019 along with the impact of spreading the outstanding renewal works over an increased infrastructure asset base (with the addition of infrastructure assets not previously included in the ratio denominator).

Report on Infrastructure Assets (continued)
as at 30 June 2019

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2019	2018	2019	2018	2019	2018	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	42.88%	52.20%	47.22%	39.08%	53.06%	1.30%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	4.23%	8.35%	10.50%	10.42%	4.16%	4.49%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	87.52%	103.64%	87.51%	87.52%	83.57%	80.58%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	3.11%	4.58%	7.02%	3.21%	3.05%	3.82%	

(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.