

Armidale Regional Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2018

Unleash the Opportunities



ARMIDALE
Regional Council

Armidale Regional Council

General Purpose Financial Statements for the year ended 30 June 2018

Contents	Page
1. Understanding Council's Financial Statements	2
2. Statement by Councillors and Management	3
3. Primary Financial Statements:	
– Income Statement	4
– Statement of Comprehensive Income	5
– Statement of Financial Position	6
– Statement of Changes in Equity	7
– Statement of Cash Flows	8
4. Notes to the Financial Statements	9
5. Independent Auditor's Reports:	
– On the Financial Statements (Sect 417 [2])	
– On the Conduct of the Audit (Sect 417 [3])	

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.armidaleregional.nsw.gov.au.

Armidale Regional Council

General Purpose Financial Statements

for the year ended 30 June 2018

Understanding Council's financial statements

Introduction

Each year, individual local governments across New South Wales 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 2018.

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 annual 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.

Armidale Regional Council

General Purpose Financial Statements

for the year ended 30 June 2018

Statement by Councillors and Management

made pursuant to Section 413(2)(c) of the *Local Government Act 1993 (NSW)* (as amended)

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

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

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

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

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

Signed in accordance with a resolution of Council made on 26 September 2018.



Simon Murray
Mayor
24 October 2018



Dorothy Robinson
Councillor
24 October 2018



Susan Law
General Manager
24 October 2018



Kelly Stidworthy
Responsible Accounting Officer
24 October 2018

Armidale Regional Council

Income Statement

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 13/5/16 to 30/6/17
Income from continuing operations				
Revenue:				
26,339	Rates and annual charges	3a	29,154	28,631
19,799	User charges and fees	3b	20,755	21,119
2,931	Interest and investment revenue	3c	1,817	2,415
2,063	Other revenues	3d	3,054	3,358
9,560	Grants and contributions provided for operating purposes	3e,f	13,406	31,459
8,104	Grants and contributions provided for capital purposes	3e,f	8,672	6,272
Other income:				
634	Net gains from the disposal of assets	5	–	–
–	Reversal of revaluation decrements / impairment of IPP&E previously expensed	4d	146	–
69,430	Total income from continuing operations		77,004	93,254
Expenses from continuing operations				
19,926	Employee benefits and on-costs	4a	24,083	26,079
1,718	Borrowing costs	4b	1,642	2,100
18,576	Materials and contracts	4c	20,869	20,022
15,476	Depreciation and amortisation	4d	16,429	18,031
8,290	Other expenses	4e	11,116	10,012
–	Net losses from the disposal of assets	5	6,104	733
63,986	Total expenses from continuing operations		80,243	76,977
5,444	Operating result from continuing operations		(3,239)	16,277
5,444	Net operating result for the year		(3,239)	16,277
Gain on local government amalgamation				
–	Assets and liabilities transferred from former councils		–	845,068
5,444	Net result for the year		(3,239)	861,345
5,444	Net result attributable to Council		(3,239)	861,345
(2,660)	Net operating result for the year before grants and contributions provided for capital purposes		(11,911)	10,005

Armidale Regional Council

Statement of Comprehensive Income for the year ended 30 June 2018

\$ '000	Notes	2018	13/5/16 to 30/6/17
Net result for the year (as per Income Statement)		(3,239)	861,345
Other comprehensive income:			
Amounts that will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	17,687	–
Total items which will not be reclassified subsequently to the operating result		17,687	–
Amounts that will be reclassified subsequently to the operating result when specific conditions are met			
Nil			
Total other comprehensive income for the year		17,687	–
Total comprehensive income for the year		14,448	861,345
Total comprehensive income attributable to Council		14,448	861,345

Armidale Regional Council

Statement of Financial Position as at 30 June 2018

\$ '000	Notes	2018	2017
ASSETS			
Current assets			
Cash and cash equivalents	6a	22,361	17,956
Investments	6b	43,003	56,538
Receivables	7	12,753	10,312
Inventories	8	1,116	1,324
Other	8	252	–
Total current assets		79,485	86,130
Non-current assets			
Receivables	7	366	379
Infrastructure, property, plant and equipment	9	846,391	822,590
Total non-current assets		846,757	822,969
TOTAL ASSETS		926,242	909,099
LIABILITIES			
Current liabilities			
Payables	11	8,788	6,840
Income received in advance	11	1,321	760
Borrowings	11	3,004	2,503
Provisions	12	7,712	10,124
Total current liabilities		20,825	20,227
Non-current liabilities			
Borrowings	11	26,726	26,894
Provisions	12	2,898	633
Total non-current liabilities		29,624	27,527
TOTAL LIABILITIES		50,449	47,754
Net assets		875,793	861,345
EQUITY			
Accumulated surplus	13	858,106	861,345
Revaluation reserves	13	17,687	–
Total equity		875,793	861,345

Armidale Regional Council

Statement of Changes in Equity

for the year ended 30 June 2018

\$ '000	Notes	2018	IPP&E	Total equity	13/5/16	IPP&E	Total equity
		Accumulated surplus	revaluation reserve		to 30/6/17	revaluation reserve	
Opening balance		861,345	–	861,345	–	–	–
Net result for the year prior to correction of errors and changes in accounting policies		(3,239)	–	(3,239)	861,345	–	861,345
Net result for the year		(3,239)	–	(3,239)	861,345	–	861,345
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9	–	17,687	17,687	–	–	–
Other comprehensive income		–	17,687	17,687	–	–	–
Total comprehensive income (c&d)		(3,239)	17,687	14,448	861,345	–	861,345
Equity – balance at end of the reporting period		858,106	17,687	875,793	861,345	–	861,345

Armidale Regional Council

Statement of Cash Flows

for the year ended 30 June 2018

Original unaudited budget 2018	\$ '000	Notes	Actual 2018	Actual 13/5/16 to 30/6/17
Cash flows from operating activities				
Receipts:				
27,134	Rates and annual charges		29,259	33,402
19,779	User charges and fees		18,389	19,793
3,027	Investment and interest revenue received		2,076	2,268
18,348	Grants and contributions		17,703	38,826
–	Bonds, deposits and retention amounts received		51	1,934
2,057	Other		7,551	4,002
Payments:				
(19,067)	Employee benefits and on-costs		(24,117)	(16,483)
(18,587)	Materials and contracts		(20,774)	(27,640)
(1,735)	Borrowing costs		(1,738)	(2,193)
(8,188)	Other		(9,375)	(12,696)
22,768	Net cash provided (or used in) operating activities	14b	19,025	41,213
Cash flows from investing activities				
Receipts:				
51	Sale of investment securities		16,838	–
202	Sale of infrastructure, property, plant and equipment		654	355
–	Deferred debtors receipts		13	414
Payments:				
–	Purchase of investment securities		(3,303)	(2,215)
(39,509)	Purchase of infrastructure, property, plant and equipment		(29,141)	(29,042)
–	Purchase of real estate assets		(14)	–
(39,256)	Net cash provided (or used in) investing activities		(14,953)	(30,488)
Cash flows from financing activities				
Receipts:				
–	Proceeds from borrowings and advances		3,000	–
Payments:				
(2,677)	Repayment of borrowings and advances		(2,667)	(3,047)
(2,677)	Net cash flow provided (used in) financing activities		333	(3,047)
(19,165)	Net increase/(decrease) in cash and cash equivalents		4,405	7,678
25,009	Plus: cash and cash equivalents – beginning of year	14a	17,956	–
–	Plus: cash transferred on amalgamation of councils		–	10,278
5,844	Cash and cash equivalents – end of the year	14a	22,361	17,956
Additional Information:				
–	plus: Investments on hand – end of year	6b	43,003	56,538
	Total cash, cash equivalents and investments		65,364	74,494

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Basis of preparation	10
2(a)	Council functions/activities – financial information	13
2(b)	Council functions/activities – component descriptions	14
3	Income from continuing operations	15
4	Expenses from continuing operations	22
5	Gains or losses from the disposal of assets	27
6(a)	Cash and cash equivalent assets	28
6(b)	Investments	28
6(c)	Restricted cash, cash equivalents and investments – details	29
7	Receivables	30
8	Inventories and other assets	32
9	Infrastructure, property, plant and equipment	34
10	Intangible assets	37
11	Payables and borrowings	38
12	Provisions	40
13	Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors	44
14	Statement of cash flows – additional information	44
15	Interests in other entities	45
16	Commitments for expenditure	47
17	Contingencies and other liabilities/assets not recognised	48
18	Financial risk management	52
19	Material budget variations	56
20	Fair value measurement	58
21	Related party transactions	62
22	Events occurring after the reporting date	63
23	Statement of developer contributions	64
24	Financial result and financial position by fund	66
25(a)	Statement of performance measures – consolidated results	68
25(b)	Statement of performance measures – by fund	69
	Additional council disclosures (unaudited)	
25(c)	Statement of performance measures – consolidated results (graphs)	71

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 26/09/2018.

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.

Basis of preparation

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 for the purpose of preparing these financial statements.

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

Full dollars have been used in Note 21 Related party disclosures in relation to the disclosure of specific related party transactions.

Unless otherwise indicated, all amounts disclosed in the financial statements are actual amounts.

Specific budgetary amounts have been included for comparative analysis (to actuals) in the following reports and notes:

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

and are clearly marked .

(a) New and amended standards adopted by Council

There have been no new (or amended) accounting standards adopted by Council in this year's financial statements which have had any material impact on reported financial position, performance or cash flows.

AASB 124 Related Party Disclosures was adopted for the first time in the financial statements.

The impact adopting this standard has had no impact on the reporting of Council's financial position or performance.

Note 21 has now been included in these financial statements for related parties and incorporates all required related party disclosures.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 9,
- (ii) estimated tip remediation provisions – refer Note 12,
- (iii) employee benefit provisions – refer Note 12.

Significant judgements in applying the Council's accounting policies

- (iv) Impairment of receivables

Council has made a significant judgement about the impairment of a number of its receivables in 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 other assets 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 other assets 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 other assets 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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 1. Basis of preparation (continued)

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 which 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 the current reporting period and which have not been applied.

As at the date of authorisation of these financial statements, Council does not consider that any of those standards are likely to have a material impact on the Council's future financial statements, financial position, financial performance or cash flows.

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Functions/activities	Income, expenses and assets have been directly attributed to the following functions/activities. Details of these functions/activities are provided in Note 2(b).									
	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)	
	2018	13/5/16 to 30/6/17	2018	13/5/16 to 30/6/17	2018	13/5/16 to 30/6/17	2018	13/5/16 to 30/6/17	2018	2017
Growth, Prosperity, and Economic Development	4,813	3,716	6,943	5,180	(2,130)	(1,464)	19	–	10,161	9,879
People and Community	6,476	4,636	22,428	20,799	(15,952)	(16,163)	3,912	1,277	93,727	71,677
Leadership for the Region	23,109	42,022	1,412	2,422	21,697	39,600	4,241	27,928	34,785	42,706
Environment and Infrastructure	42,606	42,880	49,460	48,576	(6,854)	(5,696)	10,214	3,862	787,569	784,837
Total functions and activities	77,004	93,254	80,243	76,977	(3,239)	16,277	18,386	33,067	926,242	909,099

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations

\$ '000	2018	13/5/16 to 30/6/17
(a) Rates and annual charges		
Ordinary rates		
Residential	10,489	10,293
Farmland	4,659	4,639
Mining	63	62
Business	2,470	2,443
Less: pensioner rebates (mandatory)	(374)	(380)
Total ordinary rates	17,307	17,057
Annual charges (pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	3,571	3,477
Water supply services	2,445	2,421
Sewerage services	3,779	3,681
Drainage	459	455
Waste management services (non-domestic)	2,035	1,982
Less: pensioner rebates (Council policy)	(442)	(442)
Total annual charges	11,847	11,574
TOTAL RATES AND ANNUAL CHARGES	29,154	28,631

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

Accounting policy for rates and annual charges

Rates, annual charges, grants and contributions (including developer contributions) are recognised as revenue when the Council obtains control over the assets comprising these receipts. 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.

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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	13/5/16 to 30/6/17
(b) User charges and fees		
Specific user charges (per s.502 – specific 'actual use' charges)		
Water supply services	8,563	9,448
Sewerage services	54	65
Drainage services	1,524	1,483
Waste management services (non-domestic)	1,973	1,945
Other	54	7
Total specific user charges	12,168	12,948
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Inspection services	132	193
Planning and building regulation	193	216
Private works – section 67	399	1,071
Regulatory/ statutory fees	18	36
Registration fees	85	82
Regulatory fees	177	168
Section 149 certificates (EPA Act)	77	84
Section 603 certificates	104	99
Total fees and charges – statutory/regulatory	1,185	1,949

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	13/5/16 to 30/6/17
(b) User charges and fees (continued)		
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Aerodrome	1,419	1,504
Aged care	5	6
Cemeteries	182	242
Child care	218	285
Leaseback fees – Council vehicles	151	109
Library and art gallery	39	39
Quarry revenues	473	893
RMS (formerly RTA) charges (state roads not controlled by Council)	4,301	2,567
Saleyards	99	98
Sundry sales	177	128
Swimming centres	198	238
Other	140	113
Total fees and charges – other	7,402	6,222
TOTAL USER CHARGES AND FEES	20,755	21,119

Accounting policy for user charges and fees

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

(c) Interest and investment revenue (including losses)

Interest

– Overdue rates and annual charges (incl. special purpose rates)	102	139
– Cash and investments	1,700	2,245
– Deferred debtors	12	30
– Other	3	1
TOTAL INTEREST AND INVESTMENT REVENUE	1,817	2,415

Interest revenue is attributable to:

Unrestricted investments/financial assets:

Overdue rates and annual charges (general fund)	102	139
General Council cash and investments	1,149	911

Restricted investments/funds – external:

Water fund operations	304	893
Sewerage fund operations	262	472
Total interest and investment revenue recognised	1,817	2,415

Accounting policy for interest and investment revenue

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018	13/5/16 to 30/6/17
(d) Other revenues			
Rental income – other council properties		562	690
Rental income – Kolora aged care		490	472
Fines – parking		186	309
Legal fees recovery – rates and charges (extra charges)		88	73
Commissions and agency fees		35	42
Diesel rebate		284	–
Insurance claim recoveries		18	34
Items for resale		181	205
Sales – general		27	–
Sales – cattle		735	926
Rebates		120	–
Other		328	607
<u>TOTAL OTHER REVENUE</u>		<u>3,054</u>	<u>3,358</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 recognised as revenue when the service has been provided, or when the penalty has been applied, whichever occurs first.

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

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

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018 Operating	13/5/16 to 30/6/17 Operating	2018 Capital	13/5/16 to 30/6/17 Capital
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance – general component	2,001	4,202	–	–
Financial assistance – local roads component	1,172	1,710	–	–
Payment in advance – future year allocation				
Financial assistance – general component	2,054	1,950	–	–
Financial assistance – local roads component	1,215	1,175	–	–
Other				
Pensioners' rates subsidies – general component	181	188	–	–
Other grants	269	15,236	–	–
Total general purpose	6,892	24,461	–	–
Specific purpose				
Pensioners' rates subsidies:				
– Water	73	76	–	–
– Sewerage	69	72	–	–
– Domestic waste management	57	63	–	–
Aged care	968	1,070	2,012	–
Airport	–	–	4,343	3,724
Bushfire and emergency services	–	–	100	–
Community care	–	14	–	–
Drainage	26	–	–	101
Economic development	–	10	–	–
Employment and training programs	50	–	–	–
Heritage and cultural	19	–	–	–
Library	–	116	60	39
LIRS subsidy	100	121	–	–
NSW rural fire services	300	–	121	365
Street lighting	82	139	–	–
Transport (roads to recovery)	1,970	1,355	–	–
Transport (other roads and bridges funding)	–	772	1,040	560
Waste Management	–	–	104	–
Other	–	9	–	–
Total specific purpose	3,714	3,817	7,780	4,789
Total grants	10,606	28,278	7,780	4,789
Grant revenue is attributable to:				
– Commonwealth funding	9,380	11,462	6,500	3,724
– State funding	1,226	16,816	1,280	1,065
	10,606	28,278	7,780	4,789

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	Notes	2018 Operating	13/5/16 to 30/6/17 Operating	2018 Capital	13/5/16 to 30/6/17 Capital
(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	105
S 7.11 – contributions towards amenities/services		–	–	4	–
S 7.12 – fixed development consent levies		–	–	48	8
S 64 – water supply contributions		–	–	429	755
S 64 – sewerage service contributions		–	–	218	604
Total developer contributions – cash		–	–	700	1,472
Total developer contributions	23	–	–	700	1,472
Other contributions:					
Cash contributions					
Aged homes contribution		4	5	–	–
Bushfire services		136	–	–	–
Community services		438	1,737	–	–
Kerb and gutter		–	–	–	11
Other councils – joint works/services		390	–	–	–
Recreation and culture		48	36	–	–
Roads and bridges		–	–	40	–
RMS contributions (regional roads, block grant)		1,273	1,403	152	–
Tourism		16	–	–	–
Northern Inland Regional Waste		438	–	–	–
Other		57	–	–	–
Total other contributions – cash		2,800	3,181	192	11
Total other contributions		2,800	3,181	192	11
Total contributions		2,800	3,181	892	1,483
TOTAL GRANTS AND CONTRIBUTIONS		13,406	31,459	8,672	6,272

Accounting policy for 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 above.

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

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 3. Income from continuing operations (continued)

\$ '000	2018	13/5/16 to 30/6/17
(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	11,149	4,559
Add: operating grants recognised in the current period but not yet spent	835	11,149
Less: operating grants recognised in a previous reporting period now spent	(2,741)	(4,559)
Unexpended and held as restricted assets (operating grants)	<u>9,243</u>	<u>11,149</u>
Capital grants		
Unexpended at the close of the previous reporting period	42	–
Add: capital grants recognised in the current period but not yet spent	115	42
Less: capital grants recognised in a previous reporting period now spent	(42)	–
Unexpended and held as restricted assets (capital grants)	<u>115</u>	<u>42</u>
Contributions		
Unexpended at the close of the previous reporting period	3,854	–
Add: contributions recognised in the current period but not yet spent	981	3,854
Less: contributions recognised in a previous reporting period now spent	(64)	–
Unexpended and held as restricted assets (contributions)	<u>4,771</u>	<u>3,854</u>

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations

\$ '000	2018	13/5/16 to 30/6/17
(a) Employee benefits and on-costs		
Salaries and wages	18,876	20,181
Employee termination costs	621	537
Travel expenses	174	220
Employee leave entitlements (ELE)	3,403	4,745
Superannuation	2,387	2,583
Workers' compensation insurance	416	481
Fringe benefit tax (FBT)	89	150
Payroll tax	158	115
Training costs (other than salaries and wages)	187	244
Protective clothing	91	118
Other	80	164
Total employee costs	26,482	29,538
Less: capitalised costs	(2,399)	(3,459)
TOTAL EMPLOYEE COSTS EXPENSED	24,083	26,079
Number of 'full-time equivalent' employees (FTE) at year end	275	296

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

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

(b) Borrowing costs	2018	13/5/16 to 30/6/17
(i) Interest bearing liability costs		
Interest on loans	1,755	2,045
Total interest bearing liability costs expensed	1,755	2,045
(ii) Other borrowing costs		
Discount adjustments relating to movements in provisions (other than ELE)		
Amortisation of discount of tip remediation liabilities	(113)	55
Total other borrowing costs	(113)	55
TOTAL BORROWING COSTS EXPENSED	1,642	2,100

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.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	13/5/16 to 30/6/17
(c) Materials and contracts		
Raw materials and consumables	28,722	32,542
Contractor and consultancy costs	19,802	12,143
Auditors remuneration ⁽²⁾	135	92
Legal expenses:		
– Legal expenses: planning and development	84	12
– Legal expenses: debt recovery	94	89
– Legal expenses: other	268	102
Operating leases:		
– Operating lease rentals: minimum lease payments ⁽¹⁾	216	171
Total materials and contracts	49,321	45,151
Less: capitalised costs	(28,452)	(25,129)
TOTAL MATERIALS AND CONTRACTS	20,869	20,022

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:

Photocopiers	216	171
	216	171

2. Auditor remuneration

During the year the following fees were paid or payable 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	135	92
Remuneration for audit and other assurance services	135	92
Total Auditor-General remuneration	135	92
Total Auditor remuneration	135	92

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	13/5/16 to 30/6/17
(d) Depreciation, amortisation and impairment			
Depreciation and amortisation			
Plant and equipment		1,587	1,982
Office equipment		417	550
Infrastructure:			
– Buildings		2,954	2,580
– Other structures		140	157
– Roads		4,359	4,870
– Bridges		781	886
– Footpaths		282	317
– Stormwater drainage		519	575
– Water supply network		2,994	3,380
– Sewerage network		1,537	1,735
– Airport infrastructure		333	378
Other assets:			
– Heritage collections		9	10
– Other		497	534
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	9 & 12	20	41
Intangible assets	10	–	36
Total depreciation and amortisation costs		16,429	18,031

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2018	13/5/16 to 30/6/17
(d) Depreciation, amortisation and impairment (continued)			
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	9 & 12	(146)	–
Total IPP&E impairment / revaluation decrement costs / (reversals)		(146)	–
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT COSTS EXPENSED		16,283	18,031

Accounting policy for depreciation, amortisation and impairment expenses

Depreciation and amortisation

Depreciation and amortisation are calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives. Useful lives are included in Note 9 for IPPE assets and Note 10 for intangible assets.

Impairment of non-financial assets

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

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

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 4. Expenses from continuing operations (continued)

\$ '000	2018	13/5/16 to 30/6/17
(e) Other expenses		
Advertising	256	143
Bad and doubtful debts	–	123
Bank charges	113	79
Computer software charges	525	625
Contributions/levies to other levels of government	1,295	1,299
Councillor expenses – mayoral fee	27	1
Councillor expenses – councillors' fees	172	236
Councillors' expenses (incl. mayor) – other (excluding fees above)	8	1
Donations, contributions and assistance to other organisations (Section 356)	734	1,059
Election expenses	169	–
Electricity and heating	1,072	1,183
Insurance	1,028	1,073
Items for resale	513	745
Postage	206	215
Printing and stationery	116	122
Promotion and publicity	224	234
Street lighting	222	217
Subscriptions and publications	143	206
Telephone and communications	631	646
Valuation fees	105	128
Security	85	–
Licences	401	382
Other asset adjustments through profit and loss	1,701	–
Other	1,370	1,295
<u>TOTAL OTHER EXPENSES</u>	<u>11,116</u>	<u>10,012</u>

Accounting policy for other expenses

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 5. Gains or losses from the disposal of assets

\$ '000	Notes	2018	13/5/16 to 30/6/17
Plant and equipment	9		
Proceeds from disposal – plant and equipment		654	355
Less: carrying amount of plant and equipment assets sold/written off		<u>(1,054)</u>	<u>(375)</u>
Net gain/(loss) on disposal		<u>(400)</u>	<u>(20)</u>
Infrastructure	9		
Less: carrying amount of infrastructure assets sold/written off		<u>(5,643)</u>	<u>(713)</u>
Net gain/(loss) on disposal		<u>(5,643)</u>	<u>(713)</u>
Real estate assets held for sale	8		
Less: carrying amount of real estate assets sold/written off		<u>(61)</u>	<u>–</u>
Net gain/(loss) on disposal		<u>(61)</u>	<u>–</u>
Financial assets ⁽¹⁾	6		
Proceeds from disposal/redemptions/maturities – financial assets		8,419	–
Less: carrying amount of financial assets sold/redeemed/matured		<u>(8,419)</u>	<u>–</u>
Net gain/(loss) on disposal		<u>–</u>	<u>–</u>
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>(6,104)</u>	<u>(733)</u>

Accounting policy for disposal of assets

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 derecognised.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 6(a). Cash and cash equivalent assets

\$ '000	2018	2017
Cash and cash equivalents		
Cash on hand and at bank	22,361	17,956
Total cash and cash equivalents	22,361	17,956

Accounting policy for cash and cash equivalents

For Statement of Cash Flow presentation purposes, cash and cash equivalents includes 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	2018 Current	2018 Non-current	2017 Current	2017 Non-current
Investments				
'Held to maturity'	43,003	–	56,538	–
Total investments	43,003	–	56,538	–
<u>TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS</u>	<u>65,364</u>	<u>–</u>	<u>74,494</u>	<u>–</u>
Held to maturity investments				
Long term deposits	43,003	–	56,538	–
Total	43,003	–	56,538	–

Accounting policy for investments

Classification

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

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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

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

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Total cash, cash equivalents and investments	65,364	–	74,494	–
attributable to:				
External restrictions (refer below)	61,352	–	65,282	–
Internal restrictions (refer below)	2,521	–	7,240	–
Unrestricted	1,491	–	1,972	–
	65,364	–	74,494	–

\$ '000	2018		2017	
Details of restrictions				
External restrictions – included in liabilities				
Specific purpose unexpended loans – general			6,911	12,164
NIRW grant from EPA			981	949
Aged care bonds			2,082	2,010
External restrictions – included in liabilities			9,974	15,123
External restrictions – other				
Developer contributions – general			1,887	1,833
Developer contributions – water fund			1,444	1,016
Developer contributions – sewer fund			1,124	906
RMS contributions			152	99
Specific purpose unexpended grants			9,358	11,191
Water supplies			23,251	22,343
Sewerage services			12,798	12,771
Trust Fund			1,200	–
Other			164	–
External restrictions – other			51,378	50,159
Total external restrictions			61,352	65,282
Internal restrictions				
Plant and vehicle replacement			–	2,240
Employees leave entitlement			2,521	5,000
Total internal restrictions			2,521	7,240
TOTAL RESTRICTIONS			63,873	72,522

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Purpose				
Rates and annual charges	1,887	–	1,992	–
Interest and extra charges	521	–	590	–
User charges and fees	2,480	–	1,864	–
Private works	2,311	–	–	–
Accrued revenues				
– Interest on investments	389	–	579	–
Deferred debtors	–	366	–	379
Government grants and subsidies	4,375	–	–	–
Net GST receivable	682	–	565	–
Other debtors	388	–	5,002	–
Total	13,033	366	10,592	379
Less: provision for impairment				
Rates and annual charges	(127)	–	(127)	–
User charges and fees	(153)	–	(153)	–
Total provision for impairment – receivables	(280)	–	(280)	–
TOTAL NET RECEIVABLES	12,753	366	10,312	379
Externally restricted receivables				
Water supply				
– Rates and availability charges	148	–	78	–
– Other	2,534	–	2,013	–
Sewerage services				
– Rates and availability charges	987	–	1,030	–
– Other	42	–	–	–
Domestic waste management	183	–	147	–
Total external restrictions	3,894	–	3,268	–
Unrestricted receivables	8,859	366	7,044	379
TOTAL NET RECEIVABLES	12,753	366	10,312	379

Movement in provision for impairment of receivables	13/5/16	
	2018	to 30/6/17
Balance at the beginning of the year	280	280
Balance at the end of the year	280	280

Accounting policy for receivables

Recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables (Note 7) in the Statement of Financial Position.

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

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 7. Receivables (continued)

Accounting policy for receivables (cont'd)

Impairment

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 on-going basis. Debts that are known to be uncollectible 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 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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 8. Inventories and other assets

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
(a) Inventories				
(i) Inventories at cost				
Real estate for resale (refer below)	61	–	61	–
Stores and materials	640	–	694	–
Trading stock	415	–	569	–
Total inventories at cost	1,116	–	1,324	–
TOTAL INVENTORIES	1,116	–	1,324	–
(b) Other assets				
Prepayments	252	–	–	–
TOTAL OTHER ASSETS	252	–	–	–
Externally restricted assets				
Sewerage				
Stores and materials	326	–	458	–
Total sewerage	326	–	458	–
Total externally restricted assets	326	–	458	–
Total unrestricted assets	1,042	–	866	–
TOTAL INVENTORIES AND OTHER ASSETS	1,368	–	1,324	–

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 8. Inventories and other assets (continued)

\$ '000	Notes	2018		2017	
		Current	Non-current	Current	Non-current
(i) Other disclosures					
(a) Details for real estate development					
Residential		–	–	61	–
Industrial/commercial		61	–	–	–
Total real estate for resale		61	–	61	–
(Valued at the lower of cost and net realisable value)					
Represented by:					
Acquisition costs		61	–	61	–
Total costs		61	–	61	–
Total real estate for resale		61	–	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)	–	–	–
Total real estate for resale		61	–	61	–

Accounting policy

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 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.

Land held for resale/capitalisation of borrowing costs

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

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

Armidale Regional Council

Notes to the Financial Statements
for the year ended 30 June 2018

Note 9. Infrastructure, property, plant and equipment

Asset class	as at 30/6/2017			Asset movements during the reporting period									as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation and impairment	Net carrying amount	Additions renewals	Additions new assets	Carrying value of disposals	Depreciation expense	Revaluation increments/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 and impairment	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
– Artworks	112	–	112	–	–	–	–	–	–	–	–	–	112	–	112
– Other	18,477	3,443	15,034	361	709	–	(497)	–	37	–	–	–	19,584	3,940	15,644
Reinstatement, rehabilitation and restoration assets (refer Note 12):															
– Tip assets	2,716	2,664	52	–	–	–	(20)	146	–	–	–	–	2,703	2,525	178
TOTAL INFRASTRUCTURE, PROPERTY, PLANT AND EQUIP.	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

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment

Infrastructure, property, plant and equipment are held at fair value. Independent valuations are performed at least every five years, however the carrying amount of assets is assessed 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 Crown Lands and Water (CLAW).

Increases in the carrying amounts arising on revaluation are credited to the asset 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.

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	200
Sealed roads: structure	50	Swimming pools	50
Unsealed roads	20	Other open space/recreational assets	20
Bridge: concrete	100	Other infrastructure	20
Bridge: other	50		
Road pavements	60		
Kerb, gutter and footpaths	40		

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

Accounting policy for infrastructure, property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Income statement.

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.

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 fire fighting 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 fire fighting equipment has been purchased or constructed*".

Until such time as discussions on this matter have concluded and the legislation changed, Council will only recognise rural fire service assets for land and buildings.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 10. Intangible assets

\$ '000	2018	2017
Intangible assets represent identifiable non-monetary assets without physical substance.		
Intangible assets are as follows:		
Opening values:		
Gross book value (1/7)	868	868
Accumulated amortisation (1/7)	(868)	(832)
Net book value – opening balance	–	36
Movements for the year		
– Amortisation charges	–	(36)
– Gross book value written off	(868)	–
– Accumulated amortisation charges written off	868	–
Closing values:		
Gross book value (30/6)	–	868
Accumulated amortisation (30/6)	–	(868)
<u>TOTAL INTANGIBLE ASSETS – NET BOOK VALUE</u> ¹	<u>–</u>	<u>–</u>

Accounting policy for intangible assets

IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials and service, direct payroll, and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over periods generally ranging from three to five years.

IT development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility, and where Council has an intention and ability to use the asset.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 11. Payables and borrowings

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Payables				
Goods and services – operating expenditure	3,606	–	3,719	–
Accrued expenses:				
– Borrowings	152	–	135	–
– Other expenditure accruals	761	–	–	–
Security bonds, deposits and retentions	2,088	–	2,037	–
NIRW grant from EPA	981	–	949	–
Trust	1,200	–	–	–
Total payables	8,788	–	6,840	–
Income received in advance				
Payments received in advance	1,321	–	760	–
Total income received in advance	1,321	–	760	–
Borrowings				
Loans – secured ¹	3,004	26,726	2,503	26,894
Total borrowings	3,004	26,726	2,503	26,894
TOTAL PAYABLES AND BORROWINGS	13,113	26,726	10,103	26,894

(a) Payables and borrowings relating to restricted assets

	2018		2017	
	Current	Non-current	Current	Non-current
Externally restricted assets				
Water	395	4,759	568	5,016
Sewer	20	24	66	107
Domestic waste management	1,271	12,362	2,959	10,234
Other	3,063	–	–	–
Payables and borrowings relating to externally restricted assets	4,749	17,145	3,593	15,357
Total payables and borrowings relating to restricted assets	4,749	17,145	3,593	15,357
Total payables and borrowings relating to unrestricted assets	8,364	9,581	6,510	11,537
TOTAL PAYABLES AND BORROWINGS	13,113	26,726	10,103	26,894

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 18.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 11. Payables and borrowings (continued)

\$ '000	2018	2017
(b) Current payables and borrowings not anticipated to be settled within the next twelve months		
The following payables and borrowings, even though classified as current, are not expected to be settled in the next 12 months.		
Payables – security bonds, deposits and retentions	–	4,000
	<u>–</u>	<u>4,000</u>

(c) Changes in liabilities arising from financing activities

Class of borrowings	Opening balance as at 1/7/17	Cash flows	Non-cash changes			Closing balance as at 30/6/18
			Acquisition	Fair value changes	Other non-cash movements	
Loans – secured	29,397	333	–	–	–	29,730
TOTAL	29,397	333	–	–	–	29,730

Accounting policy for payables and borrowings

Payables

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

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent 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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 12. Provisions

\$ '000	2018		2017	
	Current	Non-current	Current	Non-current
Provisions				
Employee benefits:				
Annual leave	2,223	–	2,189	–
Long service leave	5,315	195	5,615	137
Other leave - Accrued leave	174	–	–	–
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	2,703	2,320	496
Sub-total – asset remediation/restoration	–	2,703	2,320	496
<u>TOTAL PROVISIONS</u>	<u>7,712</u>	<u>2,898</u>	<u>10,124</u>	<u>633</u>

(a) Provisions relating to restricted assets

There are no restricted assets (external or internal) applicable to the above provisions

\$ '000	2018	2017
---------	------	------

(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	5,000	4,900
Other liabilities: Unspent Loan	2,000	–
	<u>7,000</u>	<u>4,900</u>

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

\$ '000

(c) Description of and movements in provisions

2018	ELE provisions					Other employee benefits	Total
	Annual leave	Sick leave	Long service leave	ELE on-costs			
At beginning of year	2,189	–	5,752	–	–	7,941	
Other	34	–	(242)	–	174	(34)	
Total ELE provisions at end of year	2,223	–	5,510	–	174	7,907	

2017	ELE provisions					Other employee benefits	Total
	Annual leave	Sick leave	Long service leave	ELE on-costs			
At beginning of year	–	–	–	–	–	–	
Other	2,189	–	5,752	–	–	7,941	
Total ELE provisions at end of year	2,189	–	5,752	–	–	7,941	

2018	Other provisions	
	Asset remediation	Total
At beginning of year	2,816	2,816
Changes to provision:		
Unwinding of discount	(113)	(113)
Total other provisions at end of year	2,703	2,703

2017	Other provisions	
	Asset remediation	Total
At beginning of year	2,761	2,761
Changes to provision:		
Unwinding of discount	55	55
Total other provisions at end of year	2,816	2,816

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

Nature and purpose of non-employee benefit provisions

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.

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.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 12. Provisions (continued)

Provisions for close-down and restoration, and environmental clean-up costs – tips 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, eg updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals

Rehabilitation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarry.

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.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 13. 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.

Note 14. Statement of cash flows – additional information

\$ '000	Notes	2018	2017
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6a	22,361	17,956
Less bank overdraft	13	–	–
Balance as per the Statement of Cash Flows		22,361	17,956
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		(3,239)	16,277
Adjust for non-cash items:			
Depreciation and amortisation		16,429	18,031
Net losses/(gains) on disposal of assets		6,104	733
Unwinding of discount rates on reinstatement provisions		(113)	55
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(2,441)	5,281
Increase/(decrease) in provision for doubtful debts		–	(251)
Decrease/(increase) in inventories		208	(67)
Decrease/(increase) in other assets		(252)	4
Increase/(decrease) in payables		(113)	1,859
Increase/(decrease) in accrued interest payable		17	(148)
Increase/(decrease) in other accrued expenses payable		761	(614)
Increase/(decrease) in other liabilities		1,844	(547)
Increase/(decrease) in employee leave entitlements		(34)	600
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		19,025	41,213

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

Unconsolidated structured entities

Council did not consolidate the following structured entities:

1. New England Weeds Authority

The New England Weeds Authority (NEWA) is a gazetted Council operating under the Local Government Act. NEWA is funded by contributions from its four constituent Councils (Armidale Regional Council, Guyra Shire, Uralla Shire and Walcha), 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. Armidale Regional Council elects 1 councillor (administrator) to the County Council, whilst Uralla Shire and Walcha each elect 1 councillor.

Management assessed the impact of the Authority's operations to be immaterial to the financial statements.

Nature of risks relating to the Unconsolidated Structured Entity

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

Armidale Regional Council has no obligation should NEWA become insolvent. As a proclaimed entity of the State of NSW any obligation will remain with the State.

	2018	13/5/16 to 30/6/17
Losses (or expenses) incurred by Council relating to the Structured Entity	–	–
Income received by Council relating to the Structured Entity		
	2018	2017
Assets in Council's Statement of Financial Position relating to the Structured Entity	–	–
Liabilities in Council's Statement of Financial Position relating to the Structured Entity	–	–
Net assets in Council's Statement of Financial Position	–	–
Maximum exposure to loss from Council's interest in the Structured Entity	–	–
Difference – net asset/(net exposure) relating to the Structured Entity:	–	–

Non-contractual financial support provided

Council did not provide any non contractual support to NEWA

Current intention to provide financial support

Armidale Regional Council will continue to provide a contribution to NEWA in accordance with NEWA's proclamation.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 15. Interests in other entities (continued)

\$ '000

Unconsolidated structured entities (continued)

2. New England Regional Art Museum (NERAM)

NERAM is a not for profit organisation built with a combination of state and local government funding and community contributions. NERAM is a Company limited by Guarantee, and a Charitable Trust which has endorsed deductible gift recipient status.

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

NERAM is the Trustee of the Hinton Trust and the Coventry Trust.

Management assessed the impact of the organisation's operations to be immaterial to the financial statements.

Nature of risks relating to the Unconsolidated Structured Entity

Armidale Regional Council provides 38% of funding for NERAM. The organisation may not exist without Councils ongoing support. Council makes 4 quarterly payments to NERAM in accordance with an agreement.

It is unknown what would happen if NERAM folded, however Council may have to meet additional costs to maintain the cultural presence in the region.

The main assets of NERAM are artworks but the nature of the Hinton and Coventry Trust prevent sale and usage of funds to fund Council or NERAM. The artworks would be transferred to another museum entity should NERAM cease to operate. Therefore the remaining assets and liabilities are not considered material to Council.

	2018	13/5/16 to 30/6/17
Losses (or expenses) incurred by Council relating to the Structured Entity	–	–
Income received by Council relating to the Structured Entity		
– Rental Income	(15)	(14)
	2018	2017
Assets in Council's Statement of Financial Position relating to the Structured Entity	4,480	4,480
Net assets in Council's Statement of Financial Position	4,480	4,480
Maximum exposure to loss from Council's interest in the Structured Entity	–	–
Difference – net asset/(net exposure) relating to the Structured Entity:	4,480	4,480

Non-contractual financial support provided

Council did not provide any non contractual support to NERAM

Current intention to provide financial support

Councils current position is to maintain support and contributions in terms of the agreement.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 16. Commitments for expenditure

\$ '000	2018	2017
(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	7,160
Plant and equipment	197	–
Bridges	661	–
Total commitments	889	7,160
These expenditures are payable as follows:		
Within the next year	889	7,160
Total payable	889	7,160
Sources for funding of capital commitments:		
Unrestricted general funds	31	2,503
Unexpended grants	661	–
Externally restricted reserves	197	–
Internally restricted reserves	–	1,500
Unexpended loans	–	157
New loans (to be raised)	–	3,000
Total sources of funding	889	7,160

Details of capital commitments

For each of the commitments, tenders have been called and orders are placed prior to year end, with an expectation of delivery early in the 2018/19 year.

(b) Operating lease commitments (non-cancellable)

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

Within the next year	193	–
Later than one year and not later than 5 years	402	–
Total non-cancellable operating lease commitments	595	–

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

Operating leases cover the provision of all photocopiers throughout all Council offices and facilities.

Conditions relating to 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 etc.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 17. Contingencies and other liabilities/assets 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 participates in an employer-sponsored defined benefit superannuation scheme and makes contributions as determined by the superannuation scheme's trustees.

Member councils bear responsibility of ensuring there are sufficient funds available to pay out the required benefits as they fall due.

While the scheme's most recent full actuarial review indicated that the net assets of the scheme were sufficient to meet the accrued benefits of the scheme's defined benefit member category, member councils are required to make contributions in future years where the scheme goes into deficit (as has occurred in previous years).

The Local Government Superannuation Scheme however is unable to provide Council with an accurate estimate of any share of the net deficit and accordingly Council has not recorded any net liability from its defined benefit scheme obligations in accordance with AASB 119.

Future planned contributions being made to the defined benefit scheme to rectify past (and projected) deficit positions will be recognised as an expense when they become payable – similar to the accounting for defined contributions plans.

Member councils are treated as Pooled Employers for the purposes of AASB119. Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund.

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

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

The additional lump sum contribution for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum from 1 July 2017 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2017. These additional lump sum contributions are used to fund the deficit of assets to accrued liabilities as 30 June 2017.

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

LIABILITIES NOT RECOGNISED (continued):

1. Guarantees (continued)

(i) Defined benefit superannuation contribution plans (continued)

As stated 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.

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

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

There is no provision for the allocation of any surplus which may be present at the date of withdrawal of an employer.

The plan is a defined benefit plan. However, 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). As such, there is not sufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would for a single employer sponsored defined benefit plan.

The amount of Council employer contributions to the defined benefit section of the Fund and recognised as an expense and disclosed as part of superannuation expenses at Note 4 (a) for the year ending 30 June 2018 was \$536,233

The last valuation of the Fund was by the Actuary, Mr Richard Boyfield, FIAA on 12 December 2017, relating to the period ended 30 June 2017.

Council's expected contributions to the Fund for the next annual reporting period is \$ 414,536

The estimated employer reserves financial position for the Pooled Employers at 30 June 2018 is:

Employer reserves only *	\$ millions	Asset Coverage
Assets	1,817.8	
Past Service Liabilities	1,787.5	101.7%
Vested Benefits	1,778.0	102.2%

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

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

Investment return	6.0% per annum
Salary inflation *	3.5% per annum
Increase in CPI	2.5% per annum

* Plus promotional increases

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

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

LIABILITIES NOT RECOGNISED (continued):

1. Guarantees (continued)

(i) Defined benefit superannuation contribution plans (continued)

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.

Please note that the estimated employer reserves financial position above is a preliminary calculation and once all the relevant information has been received by the Funds Actuary, the 2018 triennial review will be completed around December 2018.

Council's additional lump sum contribution is around 0.49% of the total additional lump sum contributions for all Pooled Employers (of \$40m each year from 1 July 2017 to 30 June 2021) provides an indication of the level of participation of Council compared with other employers in the Pooled Employer sub-group.

(ii) Statewide Limited

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 fund depending on its past performance. Council's share of the net assets or liabilities reflects Council's contributions to the pool and the result of insurance claims within each of the fund years.

The future realisation and finalisation of claims incurred but not reported to 30/6 this year may result in future liabilities or benefits as a result of past events that Council will be required to fund or share in respectively.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

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

LIABILITIES NOT RECOGNISED (continued):

(iii) StateCover Limited

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

StateCover is a 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.

(iv) Other guarantees

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.

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.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 18. Financial risk management

\$ '000

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.

	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Cash and cash equivalents	22,361	17,956	22,361	17,956
Investments				
– 'Held to maturity'	43,003	56,538	43,003	56,538
Receivables	13,119	10,691	13,119	10,691
Total financial assets	78,483	85,185	78,483	85,185
Financial liabilities				
Payables	8,788	6,840	8,788	6,840
Loans/advances	29,730	29,397	29,730	29,397
Total financial liabilities	38,518	36,237	38,518	36,237

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 mkt 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.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Financial risk management (continued)

\$ '000

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

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 a monthly Investment report is provided to Council setting out the make-up and performance of the portfolio as required by Local Government regulations.

The risks associated with the investments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether there changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **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.

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

The following represents a summary of the sensitivity of Council's Income Statement and accumulated surplus (for the reporting period) due to a change in either the price of a financial asset or the interest rates applicable.

It is assumed that the change in interest rates would have been constant throughout the reporting period.

2018	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
Possible impact of a 1% movement in interest rates	653	653	(653)	(653)
13/5/16to 30/6/17				
Possible impact of a 1% movement in interest rates	740	740	(740)	(740)

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Financial risk management (continued)

\$ '000

(b) Credit risk

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

The major risk associated with these receivables is credit risk – the risk that debts due and payable to Council may not be repaid in full.

Council manages this risk by monitoring outstanding debt and employing stringent debt recovery procedures. It also encourages ratepayers to pay their rates by the due date through incentives.

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.

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

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.

A profile of Council's receivables credit risk at balance date follows:

	2018 Rates and annual charges	2018 Other receivables	2017 Rates and annual charges	2017 Other receivables
(i) Ageing of receivables – %				
Current (not yet overdue)	24%	77%	40%	94%
Overdue	76%	23%	60%	6%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
(ii) Ageing of receivables – value			2018	2017
Rates and annual charges				
Current			443	802
< 1 year overdue			475	416
1 – 2 years overdue			323	183
2 – 5 years overdue			300	136
> 5 years overdue			346	455
			<u>1,887</u>	<u>1,992</u>
Other receivables				
Current			8,252	8,526
0 – 30 days overdue			396	140
31 – 60 days overdue			74	31
61 – 90 days overdue			709	13
> 91 days overdue			2,081	269
			<u>11,512</u>	<u>8,979</u>

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 18. Financial risk management (continued)

\$ '000

(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 by borrowing long term and fixing the interest rate on a 4-year renewal basis. The Finance Section regularly reviews interest rate movements to determine if it would be advantageous to refinance or renegotiate part or all of the loan portfolio.

The contractual undiscounted cash outflows (ie. principal and interest) of Council's payables and borrowings are set out in the maturity table below:

\$ '000	Weighted average interest rate	Subject to no maturity	payable in:			Total cash outflows	Actual carrying values
			≤ 1 Year	1 – 5 Years	> 5 Years		
2018							
Trade/other payables	0.00%	7,536	1,305	-	-	8,841	8,788
Loans and advances	4.53%	-	4,623	16,787	18,049	39,459	29,730
Total financial liabilities		7,536	5,928	16,787	18,049	48,300	38,518
2017							
Trade/other payables	0.00%	6,840	-	-	-	6,840	6,840
Loans and advances	4.53%	-	2,505	10,857	16,035	29,397	29,397
Total financial liabilities		6,840	2,505	10,857	16,035	36,237	36,237

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Material budget variations

\$ '000

Council's original financial budget for 17/18 was adopted by the Council on 28 June 2017 and is not required to be audited.

While the Income Statement included in this General Purpose Financial Report 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.

Note that for variations* of budget to actual :

Material variations represent those variances that amount to **10%** or more of the original budgeted figure.

F = Favourable budget variation, **U** = Unfavourable budget variation

\$ '000	2018 Budget	2018 Actual	2018 Variance*		
REVENUES					
Rates and annual charges	26,339	29,154	2,815	11%	F
Council increased the collection area for the Domestic Waste pick up service. This resulted in additional revenue of \$0.56M. The budget was based on the historical number of properties with a service.					
User charges and fees	19,799	20,755	956	5%	F
Interest and investment revenue	2,931	1,817	(1,114)	(38%)	U
The original budget over estimated the interest rate and the amount of cash reserve that would be held during the year.					
Other revenues	2,063	3,054	991	48%	F
Rental fees of \$1.17M were classified as charges in the original budget					
Operating grants and contributions	9,560	13,406	3,846	40%	F
Original budget assumed that the Financial Assistance Grant would not be paid early. In June half of the 2018-19 grant allocation was paid in advance.					
Capital grants and contributions	8,104	8,672	568	7%	F
Capital grants for the Kolora aged care facility of \$3.5M was payable on completion of the facility. The project was budgeted for in the previous financial year and not expected to continue into the 2018-19 financial year. As a result, the grant income was not reflected in the original budget.					
Net gains from disposal of assets	634	-	(634)	(100%)	U
The budget forecast a small gain on sale of assets. The actual result was much closer to the carrying book value.					

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 19. Material budget variations (continued)

\$ '000	2018 Budget	2018 Actual	2018 Variance*		
EXPENSES					
Employee benefits and on-costs	19,926	24,083	(4,157)	(21%)	U
The capital budget had a higher than average amount of internal resources allocated to constructed assets. During the year funding for programs like the bridge replacements were unsuccessful and the capital works on the stronger regions was delayed. This resulted in less salaries than forecast being allocated to capital projects. The original budget for employee costs was based on prior year costs, which did not reflect all changes to the staff structure resulting from the merger, and which had higher than average vacancy rate.					
Borrowing costs	1,718	1,642	76	4%	F
Materials and contracts	18,576	20,869	(2,293)	(12%)	U
Higher than expected use of contractors and consultants predominantly due to the delivery of a number of grant funded projects during the year not anticipated at the time the budget was prepared.					
Depreciation and amortisation	15,476	16,429	(953)	(6%)	U
Other expenses	8,290	11,116	(2,826)	(34%)	U
The original budget did not include costs for election as a provision was made the previous financial year for \$170. Following review of insurance portfolio insurance increases \$300K. Electricity costs also increase \$200k above budget.					
Net losses from disposal of assets	-	6,104	(6,104)	0%	U
Council budgets at a profit level, This indicates that historically we have under depreciated.					
Revaluation decrement / impairment of IPP&E	-	-	-	0%	F
Council does not budget for valuation decrements for IPP&E as the data is too difficult to determine.					
Budget variations relating to Council's Cash Flow Statement include:					
Cash flows from operating activities	22,768	19,025	(3,743)	(16.4%)	U
Cash flows from investing activities	(39,256)	(14,953)	24,303	(61.9%)	F
Programed Capital works not completed. Bridge program deferred due to funding and Stronger Regions projects carried over.					
Cash flows from financing activities	(2,677)	333	3,010	(112.4%)	F
Council originally expected to borrow funds in the 16/17 year however the funds were not available until the 17/18 year.					

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Fair value measurement

\$ '000

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) The following table presents all assets and liabilities that have been measured and recognised at fair values:

2018	Date of latest valuation	Fair value measurement hierarchy			Total
		Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobservable inputs	
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Operational Land	30/06/18	–	–	21,815	21,815
Community Land	30/06/18	–	–	19,913	19,913
Buildings (specialised and non-specialised)	30/06/18	–	–	68,395	68,395
Infrastructure Assets	30/06/17	–	–	715,607	715,607
Other Assets		–	–	11,577	11,577
Total infrastructure, property, plant and equipment		–	–	837,307	837,307
2017					
Recurring fair value measurements					
Infrastructure, property, plant and equipment					
Operational Land	30/06/13	–	–	25,916	25,916
Community Land	12/05/16	–	–	11,117	11,117
Buildings (specialised and non-specialised)	30/06/13	–	–	51,078	51,078
Infrastructure Assets	12/05/16	–	–	709,318	709,318
Other Assets		–	–	12,346	12,346
Total infrastructure, property, plant and equipment		–	–	809,775	809,775

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

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

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

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

Where Council is unable to derive fair valuations using quoted market prices of identical assets (i.e. level 1 inputs), Council instead utilises a spread of both observable inputs (level 2 inputs) and unobservable inputs (level 3 inputs). As at 30 June 2017 Council did not have assets or liabilities measured at level 2 inputs.

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

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.

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

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 estimated the replacement cost for 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 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.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

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):

- Appropriate componentisation of complex assets;
- Unit rates for each component based on the on cost to a market participant buyer; and
- 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 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. Current use of the assets noted above reflects the highest and best use.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 20. Fair value measurement (continued)

\$ '000

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

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

	Operational Land	Community Land	Buildings	Infrastructure Assets	Total
Balance on transfer from former Councils	25,566	11,117	48,975	712,462	798,120
Purchases (GBV)	350	–	4,683	10,401	15,434
Disposals (WDV)	–	–	–	(713)	(713)
Depreciation and impairment	–	–	(2,580)	(12,832)	(15,412)
Closing balance – 30/6/17	25,916	11,117	51,078	709,318	797,429
Transfers from/(to) another asset class	(3,263)	3,263	9,915	1,425	11,340
Purchases (GBV)	213	334	10,066	10,373	20,986
Disposals (WDV)	–	–	(3,865)	(1,719)	(5,584)
Depreciation and impairment	–	–	(2,954)	(11,442)	(14,396)
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 – 30/6/18	21,815	19,913	68,395	715,607	825,730
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 17/18	392	8,204	3,958	5,133	17,687
				Other Assets	Total
Balance on transfer from former Councils				13,750	13,750
Transfers from/(to) another asset class				231	231
Purchases (GBV)				1,360	1,360
Disposals (WDV)				(375)	(375)
Depreciation and impairment				(2,583)	(2,583)
Closing balance – 30/6/17				12,383	12,383
Transfers from/(to) another asset class				18	18
Purchases (GBV)				2,117	2,117
Disposals (WDV)				(1,054)	(1,054)
Depreciation and impairment				(2,033)	(2,033)
FV gains – Income Statement ¹				146	146
Closing balance – 30/6/18				11,577	11,577
¹ FV gains recognised in the Income Statement relating to assets still on hand at year end total:					
YE 17/18				146	146

(5). Highest and best use

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 21. Related party transactions

\$ '000

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:

Compensation:	2018
Short-term benefits	1,008
Post-employment benefits	61
Other long-term benefits	16
Total	1,086

b. Other transactions with KMP and their related parties

Council has determined that transactions at arm's length between KMP and Council as part of Council delivering a public service objective (e.g. access to library or Council swimming pool by KMP) will not be disclosed.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 22. Events occurring after the reporting date

Council is aware of the following 'non-adjusting events' that merit disclosure:

Sale of the Operation and Management of Kolora Aged Facility.

On 1 August 2018 Council transferred the operations and management of the Kolora Aged Care facility in Guyra to McLean Care Ltd. Council continues to retain ownership of the facility and has transferred all bonds and deposits held on behalf of residents to McLean Care Ltd in August 2018.

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Statement of developer contributions

\$ '000

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

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	41	–	–	–	–	–	41	–
Roads	523	23	–	–	–	–	546	–
Traffic facilities	17	–	–	–	–	–	17	–
Open space	347	22	–	–	–	–	369	–
Community facilities	114	4	–	–	–	–	118	–
Bushfire	–	1	–	–	–	–	1	–
Street Trees	–	1	–	–	–	–	1	–
Other	5	2	–	–	–	–	7	–
S7.11 contributions – under a plan	1,047	53	–	–	–	–	1,100	–
S7.12 levies – under a plan	702	–	–	–	–	–	702	–
Total S7.11 and S7.12 revenue under plans	1,749	53	–	–	–	–	1,802	–
S7.4 planning agreements	81	–	–	–	–	–	81	–
S64 contributions	1,925	647	–	–	–	–	2,572	–
Total contributions	3,755	700	–	–	–	–	4,455	–

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 23. Statement of developer contributions (continued)

\$ '000

S7.11 CONTRIBUTIONS – UNDER A PLAN

CONTRIBUTION PLAN

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Drainage	41	–	–	–	–	–	41	–
Roads	523	23	–	–	–	–	546	–
Traffic facilities	17	–	–	–	–	–	17	–
Open space	347	22	–	–	–	–	369	–
Community facilities	114	4	–	–	–	–	118	–
Bushfire	–	1	–	–	–	–	1	–
Street Trees	–	1	–	–	–	–	1	–
Other	5	2	–	–	–	–	7	–
Total	1,047	53	–	–	–	–	1,100	–

S7.12 LEVIES – UNDER A PLAN

CONTRIBUTION PLAN NUMBER XX

PURPOSE	Opening balance	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	Held as restricted asset	Cumulative internal borrowings due/(payable)
		Cash	Non-cash					
Other	702	–	–	–	–	–	702	–
Total	702	–	–	–	–	–	702	–

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 24. Financial result and financial position by fund

Income Statement by fund			
\$ '000	2018	2018	2018
Continuing operations	Water	Sewer	General¹
Income from continuing operations			
Rates and annual charges	2,445	5,074	21,635
User charges and fees	8,641	167	9,030
Interest and investment revenue	304	262	1,251
Other revenues	2,574	885	2,512
Grants and contributions provided for operating purposes	73	69	13,264
Grants and contributions provided for capital purposes	429	218	8,025
Other income			
Net gains from disposal of assets	–	7	–
Reversal of revaluation decrements on IPPE previously expensed	–	–	146
Total income from continuing operations	14,466	6,682	55,863
Expenses from continuing operations			
Employee benefits and on-costs	2,540	1,565	19,978
Borrowing costs	360	–	1,282
Materials and contracts	2,480	2,355	16,034
Depreciation and amortisation	3,049	1,623	11,757
Other expenses	1,076	479	9,561
Net losses from the disposal of assets	461	–	5,650
Total expenses from continuing operations	9,966	6,022	64,262
Operating result from continuing operations	4,500	660	(8,399)
Net operating result for the year	4,500	660	(8,399)
Net result attributable to each council fund	4,500	660	(8,399)
Net operating result for the year before grants and contributions provided for capital purposes	4,071	442	(16,424)

¹ General fund refers to all Council's activities other than Water and Sewer.

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

Armidale Regional Council

Notes to the Financial Statements

as at 30 June 2018

Note 24. Financial result and financial position by fund (continued)

Statement of Financial Position by fund			
\$ '000	2018	2018	2018
ASSETS	Water	Sewer	General¹
Current assets			
Cash and cash equivalents	3,063	–	19,298
Investments	21,632	13,921	7,450
Receivables	2,682	1,030	9,041
Inventories	–	326	790
Other	–	–	252
Total current assets	27,377	15,277	36,831
Non-current assets			
Receivables	–	–	366
Infrastructure, property, plant and equipment	160,218	107,053	579,120
Total non-current assets	160,218	107,053	579,486
TOTAL ASSETS	187,595	122,330	616,317
LIABILITIES			
Current liabilities			
Payables	134	–	8,654
Income received in advance	–	–	1,321
Borrowings	252	20	2,732
Provisions	9	–	7,703
Total current liabilities	395	20	20,410
Non-current liabilities			
Borrowings	4,759	24	21,943
Provisions	–	–	2,898
Total non-current liabilities	4,759	24	24,841
TOTAL LIABILITIES	5,154	44	45,251
Net assets	182,441	122,286	571,066
EQUITY			
Accumulated surplus	179,386	120,209	558,511
Revaluation reserves	3,055	2,077	12,555
Total equity	182,441	122,286	571,066

¹ General Fund refers to all Council's activities other than Water and Sewer.

NB. All amounts disclosed above are gross – that is, they include internal receivables and payables between the funds.

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 25(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2018	Indicator 2018	Indicator 2017	Benchmark
Local government industry indicators – consolidated				
1. Operating performance ratio				
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	<u>(5,953)</u>	-8.73%	12.35%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	68,186			
2. Own source operating revenue ratio				
Total continuing operating revenue ⁽¹⁾ excluding all grants and contributions	<u>54,780</u>	71.27%	59.54%	> 60.00%
Total continuing operating revenue ⁽¹⁾	76,858			
3. Unrestricted current ratio				
Current assets less all external restrictions ⁽²⁾	<u>13,913</u>	1.53x	2.21x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)	9,076			
4. Debt service cover ratio				
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	<u>12,118</u>	2.81x	6.00x	> 2x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	4,309			
5. Rates, annual charges, interest and extra charges outstanding percentage				
Rates, annual and extra charges outstanding	<u>2,281</u>	7.17%	6.81%	< 10% regional & rural
Rates, annual and extra charges collectible	31,799			
6. Cash expense cover ratio				
Current year's cash and cash equivalents plus all term deposits	<u>65,364</u>	13.37 mths	14.4 mths	> 3 mths
Monthly payments from cash flow of operating and financing activities	4,889			

Notes

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

(2) Refer Notes 6-8 inclusive.

Also excludes any real estate and land for resale not expected to be sold in the next 12 months.

(3) Refer to Notes 11 and 12.

(4) Refer to Note 11(b) and 12(b) – excludes all payables and provisions not expected to be paid in the next 12 months (incl. ELE).

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25(b). Statement of performance measures – by fund

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund							
1. Operating performance ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions less operating expenses	-21.95%	10.52%	29.00%	22.36%	6.84%	11.38%	> 0.00%
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions							
2. Own source operating revenue ratio							
Total continuing operating revenue ⁽¹⁾ excluding capital grants and contributions	61.50%	49.81%	96.53%	93.93%	98.13%	91.68%	> 60.00%
Total continuing operating revenue ⁽¹⁾							
3. Unrestricted current ratio							
Current assets less all external restrictions ⁽²⁾	2.08x	2.42x	65.65x	43.02x	707.65x	216.05x	> 1.5x
Current liabilities less specific purpose liabilities ^(3, 4)							

Notes

(1) - (4) Refer to Notes at Note 25a above.

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

Armidale Regional Council

Notes to the Financial Statements

for the year ended 30 June 2018

Note 25(b). Statement of performance measures – by fund (continued)

\$ '000	General indicators ⁵		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Local government industry indicators – by fund (continued)							
4. Debt service cover ratio							
Operating result ⁽¹⁾ before capital excluding interest and depreciation/impairment/amortisation	0.76x	4.86x	29.55x	20.71x	102.15x	43.80x	> 2x
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	4.73%	4.48%	6.01%	3.13%	19.38%	29.11%	< 10% regional & rural
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	10.63	9.08	24.33	41.27	25.99	28.40	> 3 months
Monthly payments from cash flow of operating and financing activities	months	months	months	months	months	months	

Notes

(1) Refer to Notes at Note 25a above.

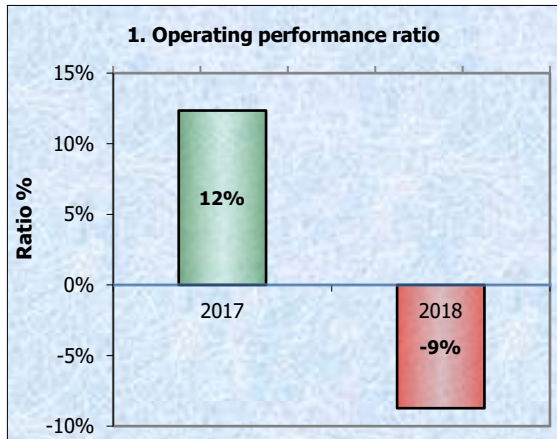
(5) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

END OF AUDITED FINANCIAL STATEMENTS

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 25(c). Statement of performance measures – consolidated results (graphs)



Purpose of operating performance ratio

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

Commentary on 2017/18 result

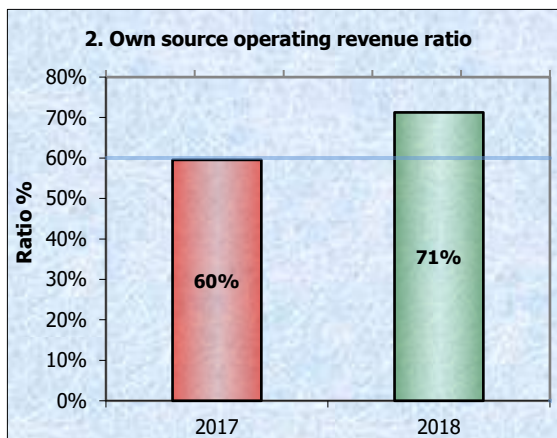
2017/18 ratio -8.73%

The operating deficit is in line with budget. The results in 2017 was the result of grants received for merger. The result is well below benchmark

Benchmark: — Minimum $\geq 0.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark



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 2017/18 result

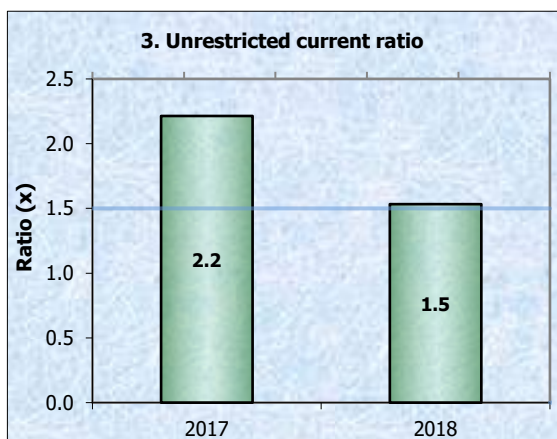
2017/18 ratio 71.27%

Own source revenues are in line with long term average.

Benchmark: — Minimum $\geq 60.00\%$

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark



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 2017/18 result

2017/18 ratio 1.53x

Unrestricted ratio decreased due to the reduction in the cash assets.

Benchmark: — Minimum ≥ 1.50

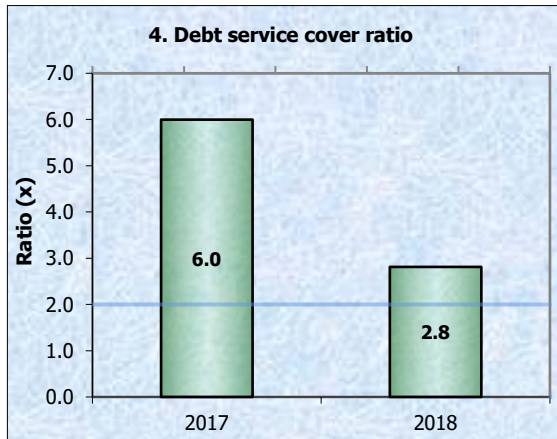
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark

Armidale Regional Council

Notes to the Financial Statements for the year ended 30 June 2018

Note 25(c). Statement of performance measures – consolidated results (graphs)



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 2017/18 result

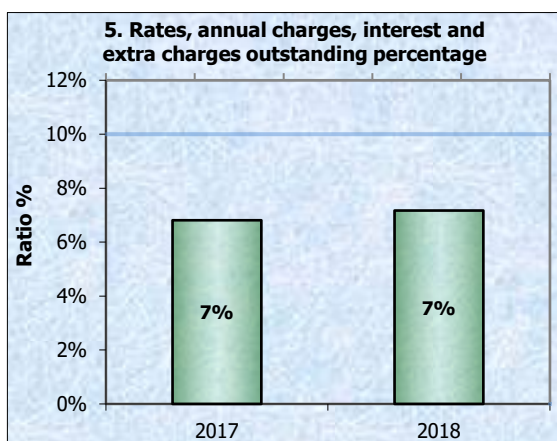
2017/18 ratio 2.81x

The new loan for the airport has reduced borrowing capacity. This ratio is a consolidated result.

Benchmark: Minimum ≥ 2.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark



Purpose of rates and annual charges outstanding ratio

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

Commentary on 2017/18 result

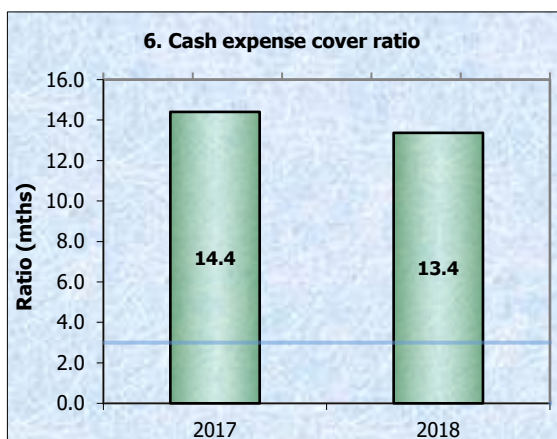
2017/18 ratio 7.17%

Councils debt recovery program has kept outstanding debt in check

Benchmark: Maximum $< 10.00\%$

Source for Benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio is within Benchmark
 Ratio is outside Benchmark



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 2017/18 result

2017/18 ratio 13.37 mths

This ratio relates to total cash available. Majority of Councils cash held is for restricted grants, water and sewer funds.

Benchmark: Minimum ≥ 3.00

Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Ratio achieves benchmark
 Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT
Report on the general purpose financial report
Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying financial report of Armidale Regional Council (the Council), which comprises the Income Statement and Statement of Comprehensive Income for the year ended 30 June 2018, the Statement of Financial Position as at 30 June 2018, 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 report:
 - has been presented, in all material respects, in accordance with the requirements of this Division
 - is consistent with the Council's accounting records
 - presents fairly, in all material respects, the financial position of the Council as at 30 June 2018, 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 report 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 Report' 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

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report 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 comprises the special purpose financial statements and Special Schedules (the Schedules).

My opinion on the financial report 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 2 - Permissible income for general rates.

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

The Councillors are responsible for the preparation and fair presentation of the financial report 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, 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 Report

My objectives are to:

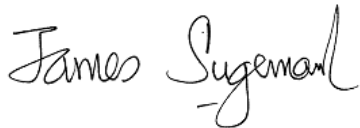
- obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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 financial report.

A description of my responsibilities for the audit of the financial report 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 19 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule 2 - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive style with a large initial 'J' and a long, sweeping underline.

James Sugumar
Director, Financial Audit Services

30 October 2018
SYDNEY

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

Contact: James Sugumar
Phone no: 02 9275 7288
Our ref: D1825507/1685

30 October 2018

Dear Mayor Murray

**Report on the Conduct of the Audit
Armidale Regional Council
Audit for the year ended 30 June 2018**

I issued an unmodified audit opinion in my Independent Auditor's Report for the general purpose financial statements of Armidale Regional Council (the Council) for the year ended 30 June 2018.

The audit was conducted in accordance with section 415 of the *Local Government Act 1993* (the Act).






This Report on the Conduct of the Audit is issued in accordance with section 417 of the Act and should be read in conjunction with my audit opinion issued under section 417(2) of the Act.

SIGNIFICANT AUDIT ISSUES AND OBSERVATIONS

I did not identify any significant audit issues or observations during my audit of the Council's general purpose financial statements.

FINANCIAL RESULTS

Income statement

	2018 \$m	2017 \$m	Variation \$m	Variance %
Rates and annual charges revenue	29.2	28.6	+0.6	 2.1
Grants and contributions revenue	22.1	37.7	-15.6	 41.4
TOTAL REVENUE	77.0	93.3	-16.3	 17.5
TOTAL EXPENSES	80.2	77.0	+3.2	 4.2
Operating result for the year	(3.2)	16.3	-19.5	 120

The increase in rates and annual charges revenue of \$0.6 million was mainly due to a 1.5 per cent rate rise.

Grants and contributions decreased by \$15.6 million primarily due to a one-off amalgamation grant of \$15.0 million received in the prior period.

Total revenue decreased by \$16.3 million largely due to the reduction in grant revenue noted above and private works fee revenue by \$672,000.

Total expenses increased by \$3.2 million largely due to a rise in net losses from disposal of assets.

Increased expenses together with a fall in revenue contributed to a \$19.5 million reduction in the operating result for the year.

Balance sheet

	2018 \$m	2017 \$m	Variation \$m	Variation %
Current assets	79.4	86.1	-6.7	↓ 7.8
Non-current assets	846.8	823.0	+23.8	↑ 2.9
TOTAL ASSETS	926.2	909.1	+17.1	↑ 1.9
TOTAL LIABILITIES	50.4	47.8	+2.6	↑ 5.4
NET ASSETS	875.8	861.3	+14.5	↑ 1.7

Decrease of current assets by \$6.7 million was mainly due to a reduction of \$9.1 million in cash and investments offset by a \$2.4 million increase in receivables from private works.

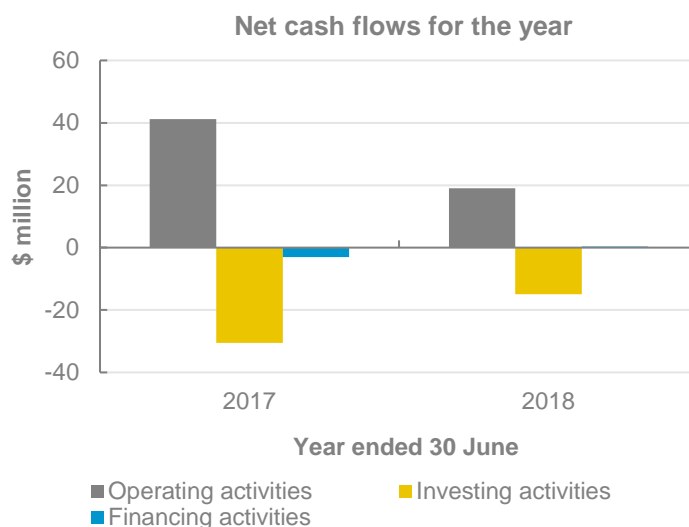
The movement in non-current assets of \$23.8 million reflects largely the changes in values from reassessment of fair values of infrastructure, property, plant and equipment assets and new additions.

Total assets moved up by \$17.1 million primarily from the growth in fair values of assets.

Total liabilities increased by \$2.6 million mainly due to rise in payables by \$1.9 million.

Cash flows

- Council reported positive cash flows for the past two years.
- Operating activities cash flows decreased in 2018 primarily due to less grants received.
- Cash flows from investing activities have increased in 2018 with the sale of investments.
- Financing activities cash flows increased to positive flows in 2018 due to loan proceeds.



Cash position

Cash and Investments	2018	2017	Commentary
	\$m	\$m	
External restrictions	61.4	65.3	Externally restricted cash decreased mainly in specific purpose loans.
Internal restrictions	2.5	7.2	Internal cash restrictions decreased in relation to plant and vehicle replacement and employee leave provisions.
Unrestricted	1.5	2.0	
Cash and investments	65.4	74.5	Total cash and investments decreased by \$9.1 million due to the negative operating result.

COUNCIL'S PERFORMANCE RATIOS FOR 30 JUNE 2018

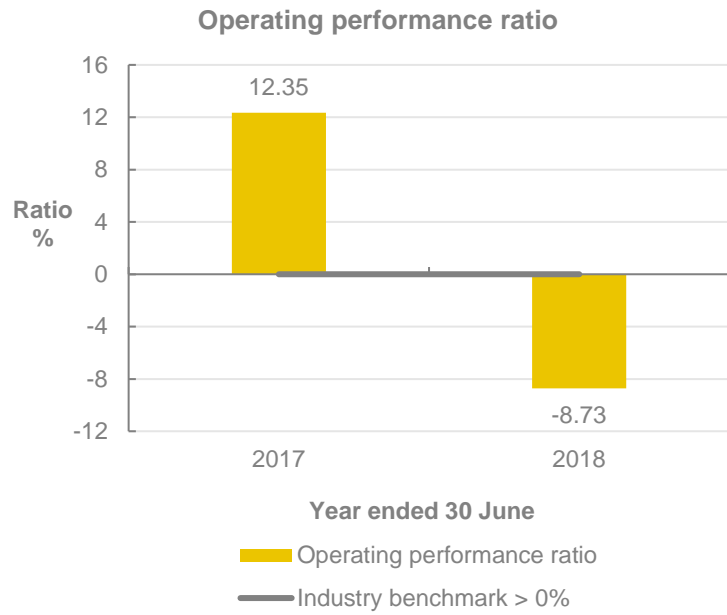
I provide a summary of outcomes and analysis of the Council's key performance ratios for the year ended 30 June 2018 as below:

Performance ratio	Outcome	Reference
Operating performance ratio	Not Achieved	<u>1</u>
Own source operating revenue ratio	Achieved	<u>2</u>
Unrestricted current ratio	Achieved	<u>3</u>
Debt service cover ratio	Achieved	<u>4</u>
Rates and annual charges cover ratio	Achieved	<u>5</u>
Cash expense cover ratio	Achieved	<u>6</u>
Building and infrastructure renewals ratio	Not Achieved	<u>7</u>

The ratios and the definitions (except for the 'building and infrastructure renewals ratio') are reported in Note 25(a) of the Council's audited general purpose financial statements. The 'building and infrastructure renewals ratio' is defined in Council's Special Schedule 7 which has not been audited.

1. Operating performance ratio (operating margin to operating revenue)

- Council did not achieve the operating performance ratio benchmark for 30 June 2018.
- The ratio decreased to -8.73 in 2018 in line with the reduced operating result for the year.

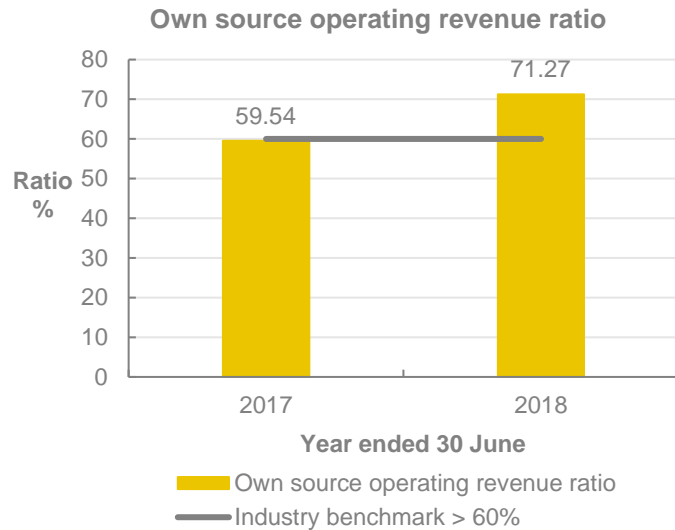


The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements).

The benchmark set by the Office of Local Government (OLG) is greater than zero per cent.

2. Own source operating revenue ratio (own funding to total funding)

- Council achieved the own source operating revenue ratio benchmark for 30 June 2018.
- The ratio increased in 2018 due to less grants and contributions revenue.

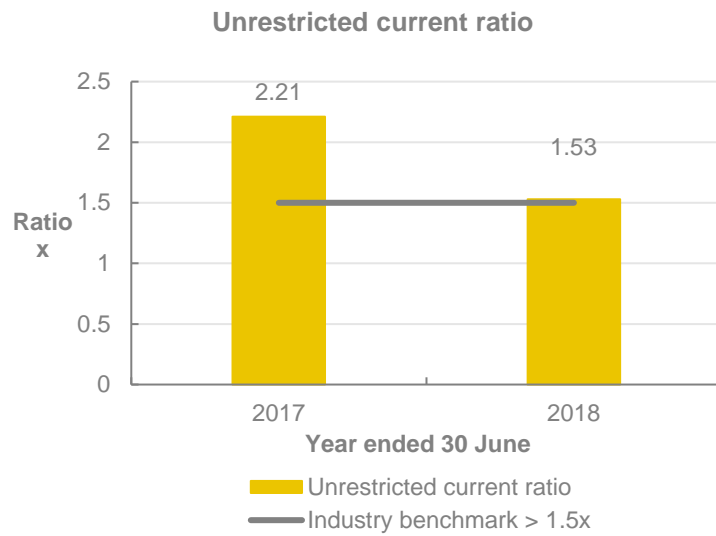


The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions.

The benchmark set by OLG is greater than 60 per cent.

3. Unrestricted current ratio (unrestricted cash to liabilities)

- Council has met the unrestricted current ratio benchmark for 30 June 2018.
- Council will be able to meet its short-term obligations as and when they fall due.

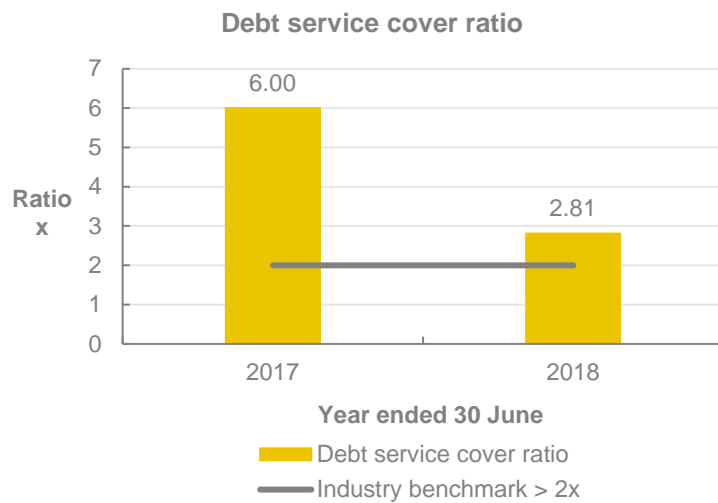


The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due.

The benchmark set by OLG is greater than 1.5 times.

4. Debt service cover ratio (operating cash to loan obligations)

- Council met the debt service cover ratio benchmark for 30 June 2018.
- It also met the ratio in the prior period.
- The ratio decreased in 2018 mainly due to the lower operating result for the year.

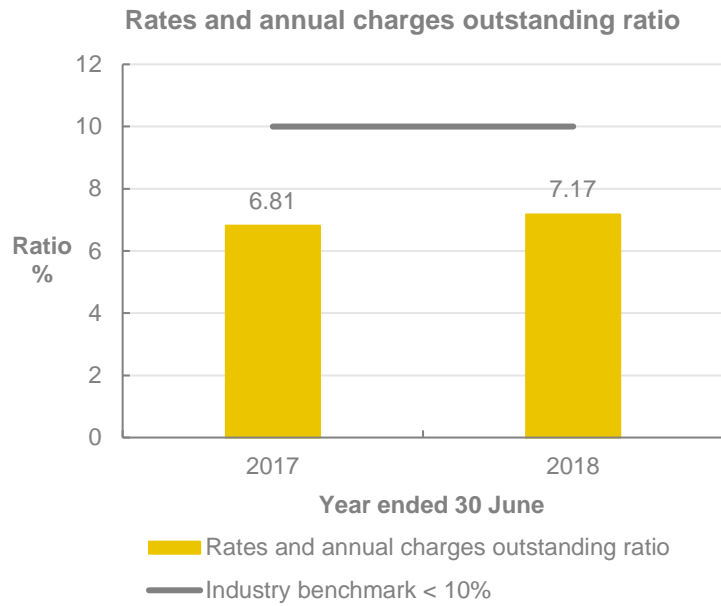


The 'debt service cover ratio' measures the operating result to service debt including interest, principal and lease payments.

The benchmark set by OLG is greater than two times.

5. Rates and annual charges outstanding ratio (uncollected rates to total rates)

- Council met the rates and annual charges outstanding ratio for 30 June 2018.
- It also met the benchmark in the prior period.
- The collection procedures of the Council operated effectively to collect more than 92.0 per cent of the rates and annual charges revenue within the receivable dates.

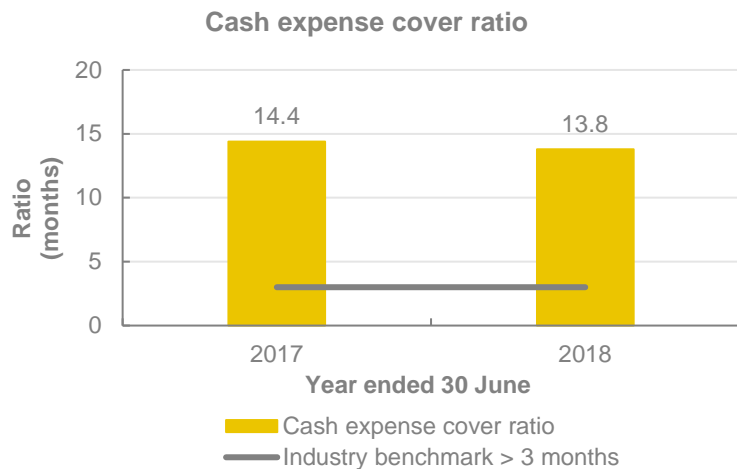


The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts.

The benchmark set by OLG is less than 10 per cent for regional and rural councils.

6. Cash expense cover ratio (cash balance to monthly outgoings)

- Council met the cash expense cover ratio benchmark of 3 months for 30 June 2018.
- It also met the benchmark in the prior period.
- It will be able to meet its immediate expenses for more than thirteen months without additional cash inflows.

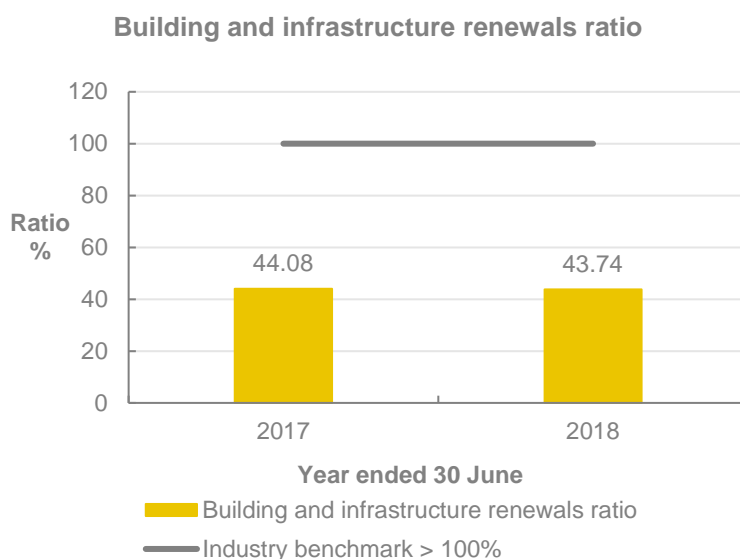


This liquidity ratio indicates the number of months the council can continue paying for its immediate expenses without additional cash inflow.

The benchmark set by OLG is greater than three months.

7. Building and infrastructure renewals ratio (unaudited)

- Council has not achieved the building and infrastructure renewals ratio benchmark for 30 June 2018.
- It did not meet the benchmark in the prior period.
- The ratio has decreased in 2018 due to increased depreciation.



The 'building and infrastructure renewals ratio' assesses the rate at which these assets are being renewed against the rate at which they are depreciating.

The benchmark set by OLG is greater than 100 per cent.

This ratio is sourced from Council's Special Schedule 7 which has not been audited.

OTHER MATTERS

New accounting standards implemented

AASB 124 'Related Party Disclosures'

Effective for annual reporting periods beginning on or after 1 July 2016.

AASB 2015-6 extended the scope of AASB 124 to include not-for-profit public-sector entities. As a result, Council's financial statements disclosed in Note 21 the:

- compensation paid to their key management personnel
- nature of their related party relationships
- amount and nature of their related party transactions, outstanding balances and commitments and outstanding balances (including commitments).

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 reports. The Council's:

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



James Sugumar
Director, Financial Audit Services

cc: Ms Susan Law, General Manager
Ms Carolyn Cooper, Chair of Internal Audit Committee
Ms Kelly Stidworthy, Service Leader – Finance
Mr Tim Hurst, Chief Executive of the Office of Local Government

Armidale Regional Council

SPECIAL PURPOSE FINANCIAL STATEMENTS

for the year ended 30 June 2018

Unleash the Opportunities



ARMIDALE
Regional Council

Armidale Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents	Page
1. Statement by Councillors and Management	2
2. Special Purpose Financial Statements:	
Income Statement – Water Supply Business Activity	3
Income Statement – Sewerage Business Activity	4
Income Statement – Other Business Activities	n/a
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	6
Statement of Financial Position – Other Business Activities	n/a
3. Notes to the Special Purpose Financial Statements	7
4. Auditor’s Report	

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).
-

Armidale Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2018

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 financial 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.

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 26 September 2018.



Simon Murray
Mayor
24 October 2018



Dorothy Robinson
Councillor
24 October 2018



Susan Law
General manager
24 October 2018



Kelly Stidworthy
Responsible accounting officer
24 October 2018

Armidale Regional Council

Income Statement of Council's Water Supply Business Activity

for the year ended 30 June 2018

\$ '000	2018	13/5/16 to 30/6/17
Income from continuing operations		
Access charges	2,445	2,250
User charges	8,561	9,445
Fees	80	240
Interest	304	893
Grants and contributions provided for non-capital purposes	73	76
Other income	2,574	22
Total income from continuing operations	14,037	12,926
Expenses from continuing operations		
Employee benefits and on-costs	2,540	2,520
Borrowing costs	360	429
Materials and contracts	2,480	2,785
Depreciation, amortisation and impairment	3,049	3,466
Loss on sale of assets	461	64
Debt guarantee fee (if applicable)	147	–
Other expenses	1,076	772
Total expenses from continuing operations	10,113	10,036
Surplus (deficit) from continuing operations before capital amounts	3,924	2,890
Grants and contributions provided for capital purposes	429	755
Surplus (deficit) from continuing operations after capital amounts	4,353	3,645
Surplus (deficit) from all operations before tax	4,353	3,645
Less: corporate taxation equivalent (30%) [based on result before capital]	(1,177)	(867)
SURPLUS (DEFICIT) AFTER TAX	3,176	2,778
Plus opening retained profits	174,917	–
Plus assets and liabilities transferred from former councils	–	39,297
Plus/less: other adjustments – removal of Asset Reval Reserve	–	145,851
Plus/less: other adjustments – revaluations	–	(13,876)
Plus adjustments for amounts unpaid:		
– Debt guarantee fees	147	–
– Corporate taxation equivalent	1,177	867
Less:		
– Tax equivalent dividend paid	(31)	–
Closing retained profits	179,386	174,917
Return on capital %	2.7%	2.1%
Subsidy from Council	–	372
Calculation of dividend payable:		
Surplus (deficit) after tax	3,176	2,778
Less: capital grants and contributions (excluding developer contributions)	–	–
Surplus for dividend calculation purposes	3,176	2,778
Potential dividend calculated from surplus	1,588	1,389

Armidale Regional Council

Income Statement of Council's Sewerage Business Activity

for the year ended 30 June 2018

\$ '000	2018	13/5/16 to 30/6/17
Income from continuing operations		
Access charges	5,074	3,521
User charges	54	1,499
Liquid trade waste charges	68	65
Fees	45	33
Interest	262	472
Grants and contributions provided for non-capital purposes	69	72
Profit from the sale of assets	7	–
Other income	885	992
Total income from continuing operations	6,464	6,654
Expenses from continuing operations		
Employee benefits and on-costs	1,565	1,436
Materials and contracts	2,355	2,240
Depreciation, amortisation and impairment	1,623	1,861
Other expenses	479	360
Total expenses from continuing operations	6,022	5,897
Surplus (deficit) from continuing operations before capital amounts	442	757
Grants and contributions provided for capital purposes	218	604
Surplus (deficit) from continuing operations after capital amounts	660	1,361
Surplus (deficit) from all operations before tax	660	1,361
Less: corporate taxation equivalent (30%) [based on result before capital]	(133)	(227)
SURPLUS (DEFICIT) AFTER TAX	527	1,134
Plus opening retained profits	119,578	–
Plus assets and liabilities transferred from former councils	–	35,627
Plus/less: other adjustments – removal of Asset Reval Reserve	–	62,296
Plus/less: other adjustments – revaluations	–	20,294
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	133	227
Less:		
– Tax equivalent dividend paid	(29)	–
Closing retained profits	120,209	119,578
Return on capital %	0.4%	0.7%
Subsidy from Council	2,373	1,732
Calculation of dividend payable:		
Surplus (deficit) after tax	527	1,134
Less: capital grants and contributions (excluding developer contributions)	–	–
Surplus for dividend calculation purposes	527	1,134
Potential dividend calculated from surplus	264	567

Armidale Regional Council

Statement of Financial Position – Council's Water Supply Business Activity as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	3,063	3,063
Investments	21,632	20,296
Receivables	2,682	2,091
Total current assets	27,377	25,450
Non-current assets		
Infrastructure, property, plant and equipment	160,218	155,051
Total non-current assets	160,218	155,051
TOTAL ASSETS	187,595	180,501
LIABILITIES		
Current liabilities		
Payables	134	323
Borrowings	252	236
Provisions	9	9
Total current liabilities	395	568
Non-current liabilities		
Borrowings	4,759	5,016
Total non-current liabilities	4,759	5,016
TOTAL LIABILITIES	5,154	5,584
NET ASSETS	182,441	174,917
EQUITY		
Accumulated surplus	179,386	174,917
Revaluation reserves	3,055	–
TOTAL EQUITY	182,441	174,917

Armidale Regional Council

Statement of Financial Position – Council's Sewerage Business Activity as at 30 June 2018

\$ '000	2018	2017
ASSETS		
Current assets		
Investments	13,921	13,677
Receivables	1,030	1,030
Inventories	326	458
Total current Assets	15,277	15,165
Non-current assets		
Infrastructure, property, plant and equipment	107,053	104,586
Total non-current assets	107,053	104,586
TOTAL ASSETS	122,330	119,751
LIABILITIES		
Current liabilities		
Payables	–	66
Borrowings	20	–
Total current liabilities	20	66
Non-current liabilities		
Borrowings	24	107
Total non-current liabilities	24	107
TOTAL LIABILITIES	44	173
NET ASSETS	122,286	119,578
EQUITY		
Accumulated surplus	120,209	119,578
Revaluation reserves	2,077	–
TOTAL EQUITY	122,286	119,578

Armidale Regional Council

Special Purpose Financial Statements

for the year ended 30 June 2018

Contents of the notes accompanying the financial statements

Note	Details	Page
1	Summary of significant accounting policies	8
2	Water Supply Business Best-Practice Management disclosure requirements	12
3	Sewerage Business Best-Practice Management disclosure requirements	14

Armidale Regional Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

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, 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".

Armidale Regional Council

Notes to the Special Purpose Financial Statements

for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 currency and rounded to the nearest thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures) and Note 3 (Sewerage Best-Practice Management Disclosures).

As required by Crown Lands and Water (CLAW), the amounts shown in Note 2 and Note 3 are disclosed in whole dollars.

(i) Taxation-equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 30%

Land tax – the first \$629,000 of combined land values attracts 0%. For the combined land values in excess of \$629,001 up to \$3,846,000 the rate is 1.6% + \$100. For the remaining combined land value that exceeds \$3,846,000 a premium marginal rate of 2.0% applies.

Payroll tax – 5.45% on the value of taxable salaries and wages in excess of \$750,000.

In accordance with Crown Lands and Water (CLAW), a payment for the amount calculated as the annual tax equivalent charges (excluding income tax) must be paid from water supply and sewerage business activities.

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

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

Income tax

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

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

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 30%.

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 30% 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.

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:

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 1. Significant accounting policies (continued)

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 2.63% at 30/6/18.

(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 DPIW guidelines and must not exceed:

- (i) 50% of this surplus in any one year, or
- (ii) the number of water supply or sewerage assessments at 30 June 2018 multiplied by \$30 (less the payment for tax equivalent charges, not exceeding \$3 per assessment).

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

END OF AUDITED SPECIAL PURPOSE FINANCIAL STATEMENTS

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 2. Water supply business best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	147,000
(ii)	Number of assessments multiplied by \$3/assessment	31,695
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	31,695
(iv)	Amounts actually paid for tax equivalents	31,695

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	1,587,900
(ii)	Number of assessments multiplied by \$30/assessment, less tax equivalent charges/assessment	285,255
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 12 May 2016	5,953,800

2018 Surplus	3,175,800	2017 Surplus	2,778,000	2016 Surplus	
		2017 Dividend	–	2016 Dividend	

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	285,255
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	
(vi)	Are the overhead reallocation charges to the water business fair and reasonable? ^a	YES

3. Required outcomes for 6 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	NO
(ii)	Full cost recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	– Complying charges [item 2 (b) in table 1]	NO
	– DSP with commercial developer charges [item 2 (e) in table 1]	YES
	– If dual water supplies, complying charges [item 2 (g) in table 1]	NO
(iii)	Sound water conservation and demand management implemented	YES
(iv)	Sound drought management implemented	YES
(v)	Complete performance reporting form (by 15 September each year)	YES
(vi)	a. Integrated water cycle management evaluation	NO
	b. Complete and implement integrated water cycle management strategy	NO

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 2. Water supply business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

National Water Initiative (NWI) financial performance indicators

NWI F1	Total revenue (water) Total income (w13) – grants for the acquisition of assets (w11a) – interest income (w9) – Aboriginal Communities W&S Program income (w10a)	\$'000	11,665
NWI F4	Revenue from residential usage charges (water) Income from residential usage charges (w6b) x 100 divided by the sum of [income from residential usage charges (w6a) + income from residential access charges (w6b)]	%	77.78%
NWI F9	Written down replacement cost of fixed assets (water) Written down current cost of system assets (w47)	\$'000	152,545
NWI F11	Operating cost (OMA) (water) Management expenses (w1) + operational and maintenance expenses (w2)	\$'000	4,241
NWI F14	Capital expenditure (water) Acquisition of fixed assets (w16)	\$'000	1,342
NWI F17	Economic real rate of return (water) [total income (w13) – interest income (w9) – grants for acquisition of assets (w11a) – operating costs (NWI F11) – current cost depreciation (w3)] x 100 divided by [written down current cost of system assets (w47) + plant and equipment (w33b)]	%	2.73%
NWI F26	Capital works grants (water) Grants for the acquisition of assets (w11a)	\$'000	–

- Notes:
- References to w (e.g. w12) refer to item numbers within Special Schedules 3 and 4 of Council's Annual Financial Statements.
 - The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
 - refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 3. Sewerage business best-practice management disclosure requirements

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

1. Calculation and payment of tax-equivalents

[all local government local water utilities must pay this dividend for tax equivalents]

(i)	Calculated tax equivalents	-
(ii)	Number of assessments multiplied by \$3/assessment	28,923
(iii)	Amounts payable for tax equivalents [lesser of (i) and (ii)]	-
(iv)	Amounts actually paid for tax equivalents	28,923

2. Dividend from surplus

(i)	50% of surplus before dividends [calculated in accordance with Best-Practice Management for Water Supply and Sewerage Guidelines]	263,700
(ii)	Number of assessments x (\$30 less tax equivalent charges per assessment)	289,230
(iii)	Cumulative surplus before dividends for the 3 years to 30 June 2018, less the cumulative dividends paid for the 2 years to 30 June 2017 and 12 May 2016	1,661,300

2018 Surplus	527,400	2017 Surplus	1,133,900	2016 Surplus	
		2017 Dividend	-	2016 Dividend	

(iv)	Maximum dividend from surplus [least of (i), (ii) and (iii) above]	263,700
(v)	Dividend actually paid from surplus [refer below for required pre-dividend payment criteria]	
(vi)	Are the overhead reallocation charges to the sewer business fair and reasonable? ^a	YES

3. Required outcomes for 4 criteria

[to be eligible for the payment of a 'dividend from surplus', all the criteria below need a 'YES']

(i)	Completion of strategic business plan (including financial plan)	NO
(ii)	Pricing with full cost-recovery, without significant cross subsidies [refer item 2 (a) in table 1 on page 22 of the Best-Practice Guidelines]	YES
	Complying charges	
	(a) Residential [item 2 (c) in table 1]	NO
	(b) Non-residential [item 2 (c) in table 1]	NO
	(c) Trade waste [item 2 (d) in table 1]	YES
	DSP with commercial developer charges [item 2 (e) in table 1]	YES
	Liquid trade waste approvals and policy [item 2 (f) in table 1]	YES
(iii)	Complete performance reporting form (by 15 September each year)	YES
(iv)	a. Integrated water cycle management evaluation	NO
	b. Complete and implement integrated water cycle management strategy	NO

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 3. Sewerage business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated) 2018

National Water Initiative (NWI) financial performance indicators

NWI F2	Total revenue (sewerage) Total income (s14) – grants for acquisition of assets (s12a) – interest income (s10) – Aboriginal Communities W&S Program income (w10a)	\$'000	6,430
NWI F10	Written down replacement cost of fixed assets (sewerage) Written down current cost of system assets (s48)	\$'000	102,748
NWI F12	Operating cost (sewerage) Management expenses (s1) + operational and maintenance expenses (s2)	\$'000	4,413
NWI F15	Capital expenditure (sewerage) Acquisition of fixed assets (s17)	\$'000	1,743
NWI F18	Economic real rate of return (sewerage) [total income (s14) – interest income (s10) – grants for acquisition of assets (s12a) – operating cost (NWI F12) – current cost depreciation (s3)] x 100 divided by [written down current cost (i.e. WDCC) of system assets (s48) + plant and equipment (s34b)]	%	0.39%
NWI F27	Capital works grants (sewerage) Grants for the acquisition of assets (12a)	\$'000	–

National Water Initiative (NWI) financial performance indicators Water and sewer (combined)

NWI F3	Total income (water and sewerage) Total income (w13 + s14) + gain/loss on disposal of assets (w14 + s15) minus grants for acquisition of assets (w11a + s12a) – interest income (w9 + s10)	\$'000	18,095
NWI F8	Revenue from community service obligations (water and sewerage) Community service obligations (NWI F25) x 100 divided by total income (NWI F3)	%	-0.11%
NWI F16	Capital expenditure (water and sewerage) Acquisition of fixed assets (w16 + s17)	\$'000	3,085
NWI F19	Economic real rate of return (water and sewerage) [total income (w13 + s14) – interest income (w9 + s10) – grants for acquisition of assets (w11a + s12a) – operating cost (NWI F11 + NWI F12) – current cost depreciation (w3 + s3)] x 100 divided by [written down replacement cost of fixed assets (NWI F9 + NWI F10) + plant and equipment (w33b + s34b)]	%	1.79%
NWI F20	Dividend (water and sewerage) Dividend paid from surplus (2 (v) of Note 2 + 2 (v) of Note 3)	\$'000	–
NWI F21	Dividend payout ratio (water and sewerage) Dividend (NWI F20) x 100 divided by net profit after tax (NWI F24)	%	0.00%

Armidale Regional Council

Notes to the Special Purpose Financial Statements for the year ended 30 June 2018

Note 3. Sewerage business best-practice management disclosure requirements (continued)

Dollars amounts shown below are in whole dollars (unless otherwise indicated)

2018

National Water Initiative (NWI) financial performance indicators Water and sewer (combined)

NWI F22	Net debt to equity (water and sewerage) Overdraft (w36 + s37) + borrowings (w38 + s39) – cash and investments (w30 + s31) x 100 divided by [total assets (w35 + s36) – total liabilities (w40 + s41)]	%	-11.00%
NWI F23	Interest cover (water and sewerage) Earnings before interest and tax (EBIT) divided by net interest Earnings before interest and tax (EBIT): Operating result (w15a + s16a) + interest expense (w4a + s4a) – interest income (w9 + s10) – gain/loss on disposal of assets (w14 + s15) + miscellaneous expenses (w4b + w4c + s4b + s4c) Net interest: Interest expense (w4a + s4a) – interest income (w9 + s10)		> 100
NWI F24	Net profit after tax (water and sewerage) Surplus before dividends (w15a + s16a) – tax equivalents paid (Note 2-1 (iv) + Note 3-1 (iv))	\$'000	5,099
NWI F25	Community service obligations (water and sewerage) Grants for pensioner rebates (w11b + s12b)	\$'000	(20)

- Notes:
1. References to w (eg. s12) refer to item numbers within Special Schedules 5 and 6 of Council's Annual Financial Statements.
 2. The NWI performance indicators are based upon the National Performance Framework Handbook for Urban Performance Reporting Indicators and Definitions.
 - a refer to 3.2 (2) on page 15 of the Best-Practice Management of Water Supply and Sewerage Guidelines, 2007



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

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying special purpose financial report (the financial report) of Armidale Regional Council's (the Council) Declared Business Activities, which comprises the Income Statement of each Declared Business Activity for the year ended 30 June 2018, the Statement of Financial Position of each Declared Business Activity as at 30 June 2018, notes comprising a summary of Significant accounting policies and other explanatory information for the Business Activities declared by Council, and the Statement by Councillors and Management.

The Declared Business Activities of the Council are:

- Water Supply Business Activity
- Sewerage Business Activity.

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Council's Declared Business Activities as at 30 June 2018, and their financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting (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 Report' 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 report which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the Council's financial reporting responsibilities under the LG Code. As a result, the financial report may not be suitable for another purpose.

Other Information

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than the financial report 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 report 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 2 - Permissible income for general rates.

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

The Councillors are responsible for the preparation and fair presentation of the financial report and for determining that the accounting policies, described in Note 1 to the financial report, 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 report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, 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 Report

My objectives are to:

- obtain reasonable assurance about whether the financial report 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 financial report.

A description of my responsibilities for the audit of the financial report 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 best practice management disclosures in Notes 2 and 3 of the financial report
- about the security and controls over the electronic publication of the audited financial report on any website where it may be presented
- about any other information which may have been hyperlinked to/from the financial report.

A handwritten signature in black ink that reads "James Sugumar". The signature is written in a cursive style with a horizontal line under the name.

James Sugumar
Director, Financial Audit Services

30 October 2018
SYDNEY

Armidale Regional Council

SPECIAL SCHEDULES
for the year ended 30 June 2018

Unleash the Opportunities



ARMIDALE
Regional Council

Armidale Regional Council

Special Schedules

for the year ended 30 June 2018

Contents

Page

Special Schedules ¹

Special Schedule 1	Net Cost of Services	2
Special Schedule 2	Permissible income for general rates	4
Special Schedule 2	Independent Auditors Report	6
Special Schedule 3	Water Supply Operations – incl. Income Statement	7
Special Schedule 4	Water Supply – Statement of Financial Position	10
Special Schedule 5	Sewerage Service Operations – incl. Income Statement	11
Special Schedule 6	Sewerage Service – Statement of Financial Position	14
Notes to Special Schedules 3 and 5		15
Special Schedule 7	Report on Infrastructure Assets	16

¹ Special Schedules are not audited (with the exception of Special Schedule 2).

Background

- (i) These Special Schedules have been designed to meet the requirements of special purpose users such as;
- the NSW Grants Commission
 - the Australian Bureau of Statistics (ABS),
 - the NSW Office of Water (NOW), and
 - the Office of Local Government (OLG).
- (ii) The financial data is collected for various uses including;
- the allocation of Financial Assistance Grants,
 - the incorporation of Local Government financial figures in national statistics,
 - the monitoring of loan approvals,
 - the allocation of borrowing rights, and
 - the monitoring of the financial activities of specific services.

Armidale Regional Council

Special Schedule 1 – Net Cost of Services

for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Governance	934	–	–	(934)
Administration	2,192	934	–	(1,258)
Public order and safety				
Fire service levy, fire protection, emergency services	2,222	589	221	(1,412)
Beach control	–	–	–	–
Enforcement of local government regulations	287	149	–	(138)
Animal control	610	133	–	(477)
Other	–	–	–	–
Total public order and safety	3,119	871	221	(2,027)
Health	315	144	–	(171)
Environment				
Noxious plants and insect/vermin control	310	–	–	(310)
Other environmental protection	1,000	1	–	(999)
Solid waste management	7,118	8,219	104	1,205
Street cleaning	–	–	–	–
Drainage	40	26	–	(14)
Stormwater management	724	380	–	(344)
Total environment	9,192	8,626	104	(462)
Community services and education				
Administration and education	1,314	(3,698)	63	(4,949)
Social protection (welfare)	–	–	–	–
Aged persons and disabled	1,322	264	2,002	944
Children's services	504	1	–	(503)
Total community services and education	3,140	(3,433)	2,065	(4,508)
Housing and community amenities				
Public cemeteries	443	182	–	(261)
Public conveniences	249	–	–	(249)
Street lighting	531	82	–	(449)
Town planning	1,632	557	–	(1,075)
Other community amenities	1,507	100	–	(1,407)
Total housing and community amenities	4,362	921	–	(3,441)
Water supplies	10,639	11,776	429	1,566
Sewerage services	7,947	6,402	218	(1,327)

Armidale Regional Council

Special Schedule 1 – Net Cost of Services (continued)
for the year ended 30 June 2018

\$'000

Function or activity	Expenses from continuing operations	Income from continuing operations		Net cost of services
		Non-capital	Capital	
Recreation and culture				
Public libraries	2,320	140	60	(2,120)
Museums	1,077	(31)	–	(1,108)
Art galleries	–	–	–	–
Community centres and halls	730	59	–	(671)
Performing arts venues	–	–	–	–
Other performing arts	–	–	–	–
Other cultural services	–	–	–	–
Sporting grounds and venues	5,188	4,092	–	(1,096)
Swimming pools	1,026	288	–	(738)
Parks and gardens (lakes)	2,931	–	–	(2,931)
Other sport and recreation	–	–	–	–
Total recreation and culture	13,272	4,548	60	(8,664)
Fuel and energy	–	–	–	–
Agriculture	–	–	–	–
Mining, manufacturing and construction				
Building control	–	–	–	–
Other mining, manufacturing and construction	412	460	–	48
Total mining, manufacturing and const.	412	460	–	48
Transport and communication				
Urban roads (UR) – local	2,263	1,038	–	(1,225)
Urban roads – regional	–	–	–	–
Sealed rural roads (SRR) – local	3,391	1,971	–	(1,420)
Sealed rural roads (SRR) – regional	1,150	1,189	152	191
Unsealed rural roads (URR) – local	4,151	949	1,080	(2,122)
Unsealed rural roads (URR) – regional	–	–	–	–
Bridges on UR – local	(296)	–	–	296
Bridges on SRR – local	591	–	–	(591)
Bridges on URR – local	–	–	–	–
Bridges on regional roads	10	–	–	(10)
Parking areas	–	–	–	–
Footpaths	342	–	–	(342)
Aerodromes	5,270	2,115	4,343	1,188
Other transport and communication	6,298	4,273	–	(2,025)
Total transport and communication	23,170	11,535	5,575	(6,060)
Economic affairs				
Camping areas and caravan parks	–	–	–	–
Other economic affairs	1,549	98	–	(1,451)
Total economic affairs	1,549	98	–	(1,451)
Totals – functions	80,243	42,882	8,672	(28,689)
General purpose revenues ⁽¹⁾		25,450		25,450
Share of interests – joint ventures and associates using the equity method	–	–		–
NET OPERATING RESULT ⁽²⁾	80,243	68,332	8,672	(3,239)

(1) Includes: rates and annual charges (including ex gratia, excluding water and sewer), non-capital general purpose grants, interest on investments (excluding externally restricted assets) and interest on overdue rates and annual charges (2) As reported in the Income Statement

Armidale Regional Council

Special Schedule 2 – Permissible income for general rates
for the year ended 30 June 2019

\$'000		2018/19	2018/19	2018/19	2017/18	2017/18	2017/18
		Armidale Dumaresq Council	Guyra Shire Council	Armidale Regional Council	Armidale Dumaresq Council	Guyra Shire Council	Armidale Regional Council
Notional general income calculation ⁽¹⁾							
Last year notional general income yield	a	15,293	2,837	18,130	15,064	2,801	17,865
Plus or minus adjustments ⁽²⁾	b	–	–	–	55	(6)	49
Notional general income	c = (a + b)	15,293	2,837	18,130	15,119	2,795	17,914
Permissible income calculation							
Special variation percentage ⁽³⁾	d	0.00%	0.00%		0.00%	0.00%	
Or rate peg percentage	e	0.00%	0.00%		1.50%	1.50%	
Or crown land adjustment (incl. rate peg percentage)	f	0.00%	0.00%		0.00%	0.00%	
Or plus rate peg amount	i = c x e	–	–	–	227	42	269
Or plus Crown land adjustment and rate peg amount	j = c x f	–	–	–	–	–	–
Sub-total	k = (c + g + h + i + j)	15,293	2,837	18,130	15,346	2,837	18,183
Plus (or minus) last year's carry forward total	l	69	7	76	16	9	25
Less valuation objections claimed in the previous year	m	–	–	–	–	–	–
Sub-total	n = (l + m)	69	7	76	16	9	25
Total permissible income	o = k + n	15,362	2,844	18,206	15,362	2,846	18,208
Less notional general income yield	p	–	–	–	15,293	2,837	18,130
Catch-up or (excess) result	q = o – p	15,362	2,844	18,206	69	9	78
Plus income lost due to valuation objections claimed ⁽⁴⁾	r	–	–	–	–	–	–
Less unused catch-up ⁽⁵⁾	s	–	–	–	–	(2)	(2)
Carry forward to next year	t = q + r – s	15,362	2,844	18,206	69	7	76

Armidale Regional Council

Special Schedule 2 – Permissible income for general rates (continued) for the year ended 30 June 2019

Notes

- (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.
- (3) The 'special variation percentage' is inclusive of the rate peg percentage and where applicable Crown land adjustment.
- (4) Valuation objections are unexpected changes in land values as a result of land owners successfully objecting to the land value issued by the Valuer-General. Councils can claim the value of the income lost due to valuation objections in any single year.
- (5) Unused catch-up amounts will be deducted if they are not caught up within 2 years. Usually councils will have a return (FDR) to administer this process.
- (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 Special Schedule 2 in the financial data return (FDR) to administer this process.



INDEPENDENT AUDITOR'S REPORT

Special Schedule 2 - Permissible Income for general rates

Armidale Regional Council

To the Councillors of Armidale Regional Council

Opinion

I have audited the accompanying Special Schedule 2 – Permissible Income for general rates (the Schedule) of Armidale Regional Council (the Council) for the year ending 30 June 2019.

In my opinion, the Schedule of the Council for the year ending 30 June 2019 is prepared, in all material respects in accordance with the requirements of the Local Government Code of Accounting Practice and Financial Reporting (LG Code) issued by the Office of Local Government (OLG), 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 had 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

Other information comprises the information included in the Council's annual report for the year ended 30 June 2018, other than 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 comprises the general purpose financial statements, special purpose financial statements and the Special Schedules excluding Special Schedule 2 (the other Schedules).

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:

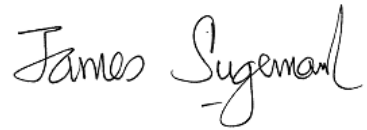
- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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 that reads "James Sugumar". The signature is written in a cursive style with a large initial 'J' and a long, sweeping underline.

James Sugumar
Director, Financial Audit Services

30 October 2018
SYDNEY

Armidale Regional Council

Special Schedule 3 – Water Supply Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	13/5/16 to 30/6/17
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	(1,264)	313
b. Engineering and supervision	740	370
2. Operation and maintenance expenses		
– dams and weirs		
a. Operation expenses	–	(294)
b. Maintenance expenses	690	1,299
– Mains		
c. Operation expenses	407	–
d. Maintenance expenses	1,334	1,170
– Reservoirs		
e. Operation expenses	–	–
f. Maintenance expenses	99	347
– Pumping stations		
g. Operation expenses (excluding energy costs)	1,693	105
h. Energy costs	150	43
i. Maintenance expenses	–	–
– Treatment		
j. Operation expenses (excluding chemical costs)	–	2,223
k. Chemical costs	392	322
l. Maintenance expenses	–	–
– Other		
m. Operation expenses	–	–
n. Maintenance expenses	–	–
o. Purchase of water	–	–
3. Depreciation expenses		
a. System assets	3,049	3,459
b. Plant and equipment	–	8
4. Miscellaneous expenses		
a. Interest expenses	–	–
b. Revaluation decrements	–	–
c. Other expenses	163	607
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	7,453	9,972

Armidale Regional Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	13/5/16 to 30/6/17
Income		
6. Residential charges		
a. Access (including rates)	2,445	2,250
b. Usage charges	8,561	9,446
7. Non-residential charges		
a. Access (including rates)	–	–
b. Usage charges	–	–
8. Extra charges	16	240
9. Interest income	288	893
10. Other income	141	21
10a. Aboriginal Communities Water and Sewerage Program	–	–
11. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	73	76
c. Other grants	–	–
12. Contributions		
a. Developer charges	429	755
b. Developer provided assets	–	–
c. Other contributions	–	–
13. Total income	11,953	13,681
14. Gain (or loss) on disposal of assets	–	(64)
15. Operating result	4,500	3,645
15a. Operating result (less grants for acquisition of assets)	4,500	3,645

Armidale Regional Council

Special Schedule 3 – Water Supply Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	13/5/16 to 30/6/17
B Capital transactions		
Non-operating expenditures		
16. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	172	343
c. Renewals	1,170	416
d. Plant and equipment	–	–
17. Repayment of debt	216	287
18. Totals	1,558	1,046
Non-operating funds employed		
19. Proceeds from disposal of assets	–	–
20. Borrowing utilised	–	–
21. Totals	–	–
C Rates and charges		
22. Number of assessments		
a. Residential (occupied)	10,565	10,476
b. Residential (unoccupied, ie. vacant lot)	–	–
c. Non-residential (occupied)	–	–
d. Non-residential (unoccupied, ie. vacant lot)	–	–
23. Number of ETs for which developer charges were received	– ET	– ET
24. Total amount of pensioner rebates (actual dollars)	\$ -	\$ 170,769

Armidale Regional Council

Special Schedule 4 – Water Supply Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2018

\$'000	Current	Non-current	Total
ASSETS			
25. Cash and investments			
a. Developer charges	1,444	–	1,444
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	23,251	–	23,251
26. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	148	–	148
c. User charges	2,448	–	2,448
d. Other	86	–	86
27. Inventories	–	–	–
28. Property, plant and equipment			
a. System assets	–	152,545	152,545
b. Plant and equipment	–	7,673	7,673
29. Other assets	–	–	–
30. Total assets	<u>27,377</u>	<u>160,218</u>	<u>187,595</u>
LIABILITIES			
31. Bank overdraft	–	–	–
32. Creditors	98	–	98
33. Borrowings	297	4,759	5,056
34. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
35. Total liabilities	<u>395</u>	<u>4,759</u>	<u>5,154</u>
36. NET ASSETS COMMITTED	<u>26,982</u>	<u>155,459</u>	<u>182,441</u>
EQUITY			
37. Accumulated surplus			179,386
38. Asset revaluation reserve			3,055
39. Other reserves			–
40. TOTAL EQUITY			<u>182,441</u>
Note to system assets:			
41. Current replacement cost of system assets			224,247
42. Accumulated current cost depreciation of system assets			(71,702)
43. Written down current cost of system assets			<u>152,545</u>

Armidale Regional Council

Special Schedule 5 – Sewerage Service Income Statement

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	13/5/16 to 30/6/17
A Expenses and income		
Expenses		
1. Management expenses		
a. Administration	581	125
b. Engineering and supervision	526	322
2. Operation and maintenance expenses		
– mains		
a. Operation expenses	1,094	1,130
b. Maintenance expenses	5	1,147
– Pumping stations		
c. Operation expenses (excluding energy costs)	25	105
d. Energy costs	–	98
e. Maintenance expenses	–	–
– Treatment		
f. Operation expenses (excl. chemical, energy, effluent and biosolids management costs)	1,062	1,718
g. Chemical costs	–	–
h. Energy costs	108	–
i. Effluent management	1,012	1,125
j. Biosolids management	–	8
k. Maintenance expenses	–	–
– Other		
l. Operation expenses	–	–
m. Maintenance expenses	–	–
3. Depreciation expenses		
a. System assets	1,594	74
b. Plant and equipment	7	45
4. Miscellaneous expenses		
a. Interest expenses	–	–
b. Revaluation decrements	–	–
c. Other expenses	–	–
d. Impairment – system assets	–	–
e. Impairment – plant and equipment	–	–
f. Aboriginal Communities Water and Sewerage Program	–	–
g. Tax equivalents dividends (actually paid)	–	–
5. Total expenses	6,014	5,897

Armidale Regional Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	13/5/16 to 30/6/17
Income		
6. Residential charges (including rates)	3,779	5,022
7. Non-residential charges		
a. Access (including rates)	–	–
b. Usage charges	54	–
8. Trade waste charges		
a. Annual fees	–	–
b. Usage charges	68	65
c. Excess mass charges	–	–
d. Re-inspection fees	–	–
9. Extra charges	18	17
10. Interest income	244	472
11. Other income	2,386	1,078
11a. Aboriginal Communities Water and Sewerage Program	–	–
12. Grants		
a. Grants for acquisition of assets	–	–
b. Grants for pensioner rebates	(93)	–
c. Other grants	–	–
13. Contributions		
a. Developer charges	218	604
b. Developer provided assets	–	–
c. Other contributions	–	–
14. Total income	6,674	7,258
15. Gain (or loss) on disposal of assets	–	–
16. Operating result	660	1,361
16a. Operating result (less grants for acquisition of assets)	660	1,361

Armidale Regional Council

Special Schedule 5 – Sewerage Service Income Statement (continued)

Includes all internal transactions, i.e. prepared on a gross basis
for the year ended 30 June 2018

\$'000	2018	13/5/16 to 30/6/17
B Capital transactions		
Non-operating expenditures		
17. Acquisition of fixed assets		
a. New assets for improved standards	–	–
b. New assets for growth	1,721	403
c. Renewals	22	726
d. Plant and equipment	–	–
18. Repayment of debt	–	–
19. Totals	<u>1,743</u>	<u>1,129</u>
Non-operating funds employed		
20. Proceeds from disposal of assets	–	–
21. Borrowing utilised	–	–
22. Totals	<u>–</u>	<u>–</u>
C Rates and charges		
23. Number of assessments		
a. Residential (occupied)	9,641	9,549
b. Residential (unoccupied, ie. vacant lot)	–	–
c. Non-residential (occupied)	–	–
d. Non-residential (unoccupied, ie. vacant lot)	–	–
24. Number of ETs for which developer charges were received	– ET	– ET
25. Total amount of pensioner rebates (actual dollars)	\$ -	\$ -

Armidale Regional Council

Special Schedule 6 – Sewerage Service Statement of Financial Position

Includes internal transactions, i.e. prepared on a gross basis
as at 30 June 2018

\$'000	Current	Non-current	Total
ASSETS			
26. Cash and investments			
a. Developer charges	1,124	–	1,124
b. Special purpose grants	–	–	–
c. Accrued leave	–	–	–
d. Unexpended loans	–	–	–
e. Sinking fund	–	–	–
f. Other	12,798	–	12,798
27. Receivables			
a. Specific purpose grants	–	–	–
b. Rates and availability charges	987	–	987
c. User charges	–	–	–
d. Other	42	–	42
28. Inventories	326	–	326
29. Property, plant and equipment			
a. System assets	–	102,748	102,748
b. Plant and equipment	–	4,305	4,305
30. Other assets	–	–	–
31. Total assets	15,277	107,053	122,330
LIABILITIES			
32. Bank overdraft	–	–	–
33. Creditors	–	–	–
34. Borrowings	20	24	44
35. Provisions			
a. Tax equivalents	–	–	–
b. Dividend	–	–	–
c. Other	–	–	–
36. Total liabilities	20	24	44
37. NET ASSETS COMMITTED	15,257	107,029	122,286
EQUITY			
38. Accumulated surplus			120,209
39. Asset revaluation reserve			2,077
40. Other reserves			–
41. TOTAL EQUITY			122,286
Note to system assets:			
42. Current replacement cost of system assets			137,747
43. Accumulated current cost depreciation of system assets			(34,999)
44. Written down current cost of system assets			102,748

Armidale Regional Council

Notes to Special Schedules 3 and 5 for the year ended 30 June 2018

Administration ⁽¹⁾

(item 1a of Special Schedules 3 and 5) comprises the following:

- Administration staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Meter reading
- Bad and doubtful debts
- Other administrative/corporate support services

Engineering and supervision ⁽¹⁾

(item 1b of Special Schedules 3 and 5) comprises the following:

- Engineering staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.
- Other technical and supervision staff:
 - Salaries and allowance
 - Travelling expenses
 - Accrual of leave entitlements
 - Employment overheads.

Operational expenses (item 2 of Special Schedules 3 and 5) comprise the day to day operational expenses excluding maintenance expenses.

Maintenance expenses (item 2 of Special Schedules 3 and 5) comprise the day to day repair and maintenance expenses. (Refer to Section 5 of the Local Government Asset Accounting Manual regarding capitalisation principles and the distinction between capital and maintenance expenditure).

Other expenses (item 4c of Special Schedules 3 and 5) includes all expenses not recorded elsewhere.

Revaluation decrements (item 4b of Special Schedules 3 and 5) is to be used when I,PP&E decreases in FV.

Impairment losses (item 4d and 4e of Special Schedules 3 and 5) are to be used when the carrying amount of an asset exceeds its recoverable amount (refer to page D-31).

Aboriginal Communities Water and Sewerage Program (item 4f of Special Schedules 3 and 5) is to be used when operation and maintenance work has been undertaken on behalf of the Aboriginal Communities Water and Sewerage Program. Similarly, income for item 11a of Special Schedule 3 and item 12a of Special Schedule 5 are for services provided to the Aboriginal Communities Water and Sewerage Program and is not part of Council's water supply and sewerage revenue.

Residential charges ⁽²⁾ (items 6a, 6b and item 6 of Special Schedules 3 and 5 respectively) include all income from residential charges. Item 6 of Schedule 3 should be separated into 6a access charges (including rates if applicable) and 6b usage charges.

Non-residential charges ⁽²⁾ (items 7a, 7b of Special Schedules 3 and 5) include all income from non-residential charges separated into 7a access charges (including rates if applicable) and 7b usage charges.

Trade waste charges (item 8 of Special Schedule 5) include all income from trade waste charges separated into 8a annual fees, 8b usage charges and 8c excess mass charges and 8d re-inspection fees.

Other income (items 10 and 11 of Special Schedules 3 and 5 respectively) include all income not recorded elsewhere.

Other contributions (items 12c and 13c of Special Schedules 3 and 5 respectively) including capital contributions for water supply or sewerage services received by Council under Section 565 of the *Local Government Act*.

Notes:

⁽¹⁾ Administration and engineering costs for the development of capital works projects should be reported as part of the capital cost of the project and not as part of the recurrent expenditure (ie. in item 16 for water supply and item 17 for sewerage, and **not** in items 1a and 1b).

⁽²⁾ To enable accurate reporting of **residential revenue from usage charges**, it is essential for councils to accurately separate their residential (item 6) charges and non-residential (item 7) charges.

Armidale Regional Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Buildings	Buildings	16,272	12,742	1,621	5,707	68,395	123,983	6%	43%	38%	11%	2%
	Sub-total	16,272	12,742	1,621	5,707	68,395	123,983	6.0%	43.0%	38.0%	11.0%	2.0%
Other structures	Other structures	18	14	372	489	1,280	1,680	90%	8%	1%	1%	0%
	Recreation	682	4,544	3,423	3,810	5,230	8,666	13%	36%	1%	50%	0%
	Sub-total	700	4,558	3,795	4,299	6,510	10,346	25.5%	31.5%	1.0%	42.0%	0.0%
Roads	Sealed roads	11,312	2,473	4,427	4,299	135,387	176,319	48%	36%	14%	1%	1%
	Unsealed roads	4,104	3,325	5,432	4,075	22,217	33,857	45%	15%	28%	7%	5%
	Bridges	3,576	1,069	663	579	41,505	63,925	34%	40%	24%	2%	0%
	Footpaths	1,722	2,340	403	360	8,030	14,538	53%	21%	10%	9%	7%
	Kerb and Gutter	3,650	4,220	410	310	12,782	22,131	59%	12%	10%	8%	11%
	Bulk earthworks	–	–	–	–	152,653	152,653	100%	0%	0%	0%	0%
	Traffic Furniture	49	7	–	–	8,578	10,302	15%	84%	1%	0%	0%
	Sub-total	24,413	13,434	11,335	9,623	381,152	473,725	62.6%	22.9%	11.2%	1.8%	1.5%

Armidale Regional Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Water supply network	Dams	157	262	1,181	1,377	30,645	37,421	8%	58%	34%	0%	0%
	Water Mains	14,503	6,623	2,912	2,125	78,407	123,397	8%	40%	46%	6%	0%
	Pumping Stations	129	–	196	85	1,632	2,456	15%	63%	22%	0%	0%
	Reservoirs	184	238	112	76	17,827	24,963	13%	83%	3%	1%	0%
	Water Treatment Plants	916	82	3,141	2,938	24,034	36,010	16%	71%	12%	1%	0%
	Sub-total	15,889	7,205	7,542	6,601	152,545	224,247	9.9%	53.0%	33.5%	3.6%	0.0%
Sewerage Network	Sewerage Mains	4,289	5,144	2,492	1,370	77,327	105,121	19%	44%	25%	12%	0%
	Pumping Stations	–	–	181	54	1,206	1,599	45%	54%	1%	0%	0%
	Sewerage Treatment Plants	324	122	2,802	2,988	21,218	26,017	12%	74%	13%	1%	0%
	Effluent Reuse Farms	4	–	–	–	2,998	5,010	51%	45%	4%	0%	0%
	Sub-total	4,617	5,266	5,475	4,412	102,749	137,747	19.1%	49.8%	21.7%	9.3%	0.0%

Armidale Regional Council

Special Schedule 7 – Report on Infrastructure Assets as at 30 June 2018 (continued)

\$'000

Asset class	Asset category	Estimated cost to bring assets to satisfactory standard	Estimated cost to bring to the agreed level of service set by Council	2017/18 Required maintenance ^a	2017/18 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
								1	2	3	4	5
Stormwater drainage	Stormwater drainage	775	388	1,624	345	49,641	62,414	51%	40%	8%	1%	0%
	Sub-total	775	388	1,624	345	49,641	62,414	51.0%	40.0%	8.0%	1.0%	0.0%
Other infrastructure assets	Airport Infrastructure	72	–	2,217	1,368	7,366	8,999	90%	10%	0%	0%	0%
	Sub-total	72	–	2,217	1,368	7,366	8,999	90.0%	10.0%	0.0%	0.0%	0.0%

Notes:

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

Infrastructure asset condition assessment 'key'

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

Armidale Regional Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	Amounts 2018	Indicator 2018	Indicator 2017	Benchmark
Infrastructure asset performance indicators * consolidated				
1. Buildings and infrastructure renewals ratio ⁽¹⁾				
Asset renewals ⁽²⁾	<u>6,080</u>	43.74%	44.08%	>= 100%
Depreciation, amortisation and impairment	<u>13,899</u>			
2. Infrastructure backlog ratio ⁽¹⁾				
Estimated cost to bring assets to a satisfactory standard	<u>62,738</u>	8.24%	10.59%	< 2.00%
Net carrying amount of infrastructure assets	<u>760,992</u>			
3. Asset maintenance ratio				
Actual asset maintenance	<u>32,355</u>	96.27%	96.26%	> 100%
Required asset maintenance	<u>33,609</u>			
4. Cost to bring assets to agreed service level				
Estimated cost to bring assets to an agreed service level set by Council	<u>43,593</u>	4.19%	4.34%	
Gross replacement cost	<u>1,041,461</u>			

Notes

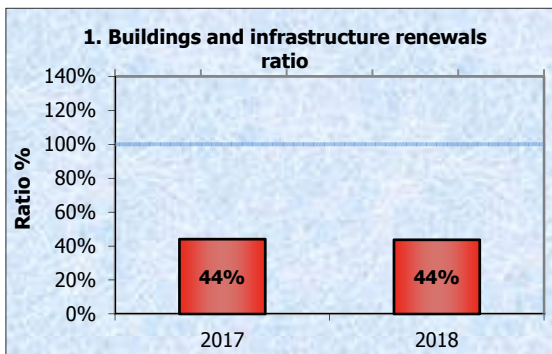
* All asset performance indicators are calculated using the asset classes identified in the previous table.

⁽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.

Armidale Regional Council

Special Schedule 7 – Report on Infrastructure Assets (continued) for the year ended 30 June 2018



Benchmark: — Minimum $\geq 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset renewals ratio

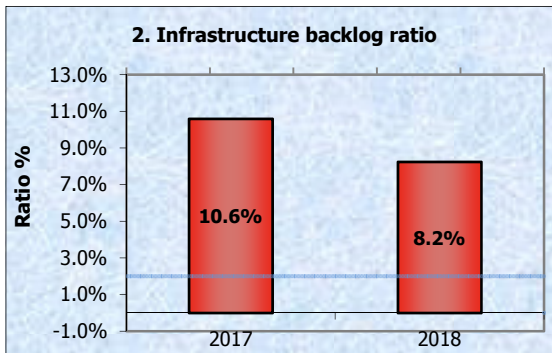
To assess the rate at which these assets are being renewed relative to the rate at which they are depreciating.

Commentary on 2017/18 result

2017/18 Ratio 43.74%

Council is currently under the benchmark for Infrastructure Asset Renewals

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Benchmark: — Maximum $< 2.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of infrastructure backlog ratio

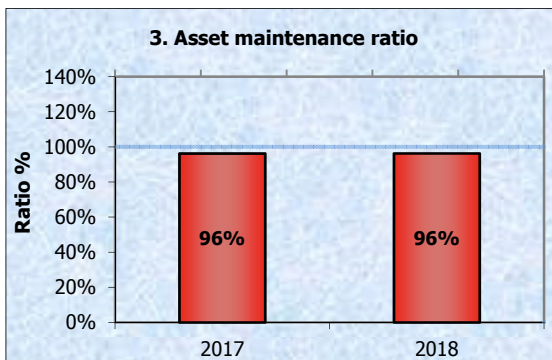
This ratio shows what proportion the backlog is against the total value of a Council's infrastructure.

Commentary on 2017/18 result

2017/18 Ratio 8.24%

Councils asset backlog is over 4 times the required benchmark and is related to the asset renewals.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Benchmark: — Minimum $> 100.00\%$
Source for benchmark: Code of Accounting Practice and Financial Reporting #26

Purpose of asset maintenance ratio

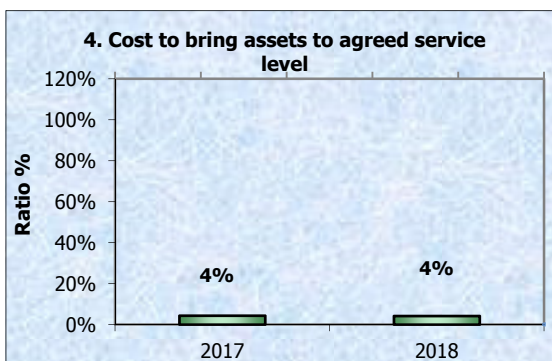
Compares actual vs. required annual asset maintenance. A ratio above 100% indicates Council is investing enough funds to stop the infrastructure backlog growing.

Commentary on 2017/18 result

2017/18 Ratio 96.27%

Asset maintenance continues to be within the expected benchmark range.

■ Ratio achieves benchmark
■ Ratio is outside benchmark



Purpose of agreed service level ratio

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 2017/18 result

2017/18 Ratio 4.19%

This ratio reflects the asset backlog ratio result.

Armidale Regional Council

Special Schedule 7 – Report on Infrastructure Assets (continued)
for the year ended 30 June 2018

	General indicators ⁽¹⁾		Water indicators		Sewer indicators		Benchmark
	2018	2017	2018	2017	2018	2017	
Infrastructure asset performance indicators by fund							
1. Buildings and infrastructure renewals ratio ⁽²⁾							
Asset renewals ⁽³⁾	80.12%	55.93%	39.08%	12.31%	1.30%	41.84%	>= 100%
Depreciation, amortisation and impairment							
2. Infrastructure backlog ratio ⁽²⁾							
Estimated cost to bring assets to a satisfactory standard	8.35%	12.28%	10.42%	10.70%	4.49%	4.60%	< 2.00%
Net carrying amount of infrastructure assets							
3. Asset maintenance ratio							
Actual asset maintenance	103.64%	103.63%	87.52%	87.53%	80.58%	80.56%	> 100%
Required asset maintenance							
4. Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council	4.58%	4.75%	3.21%	3.37%	3.82%	3.93%	
Gross replacement cost							

Notes

- (1) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.
- (2) Excludes Work In Progress (WIP)
- (3) 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.