

Kyogle Council

ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2019



Kyogle Council

GENERAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2019



General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

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

1 Stratheden Street
Kyogle NSW 2474

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.kyogle.nsw.gov.au.

General Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

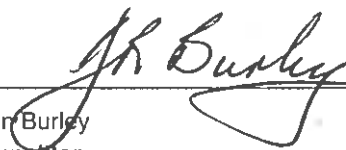
- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 28 October 2019.



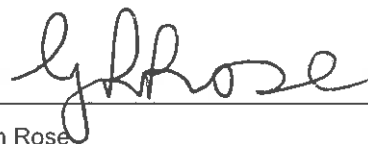
Danielle Mulholland
Mayor
28 October 2019



John Burley
Councillor
28 October 2019



Graham Kennett
General Manager
28 October 2019



Glenn Rose
Responsible Accounting Officer
28 October 2019

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
Revenue:				
9,814	Rates and annual charges	3a	10,083	9,569
6,482	User charges and fees	3b	9,806	6,398
354	Interest and investment revenue	3c	288	384
5	Other revenues	3d	20	175
6,920	Grants and contributions provided for operating purposes	3e,3f	6,906	6,648
6,609	Grants and contributions provided for capital purposes	3e,3f	8,475	8,229
30,184	Total income from continuing operations		35,578	31,403
Expenses from continuing operations				
8,481	Employee benefits and on-costs	4a	8,520	7,889
290	Borrowing costs	4b	146	185
5,177	Materials and contracts	4c	6,487	4,291
7,223	Depreciation and amortisation	4d	7,463	6,768
2,167	Other expenses	4e	2,170	1,959
(69)	Net losses from the disposal of assets	5	2,927	2,188
—	Revaluation decrement / impairment of IPP&E	4d	—	686
23,269	Total expenses from continuing operations		27,713	23,966
6,915	Operating result from continuing operations		7,865	7,437
6,915	Net operating result for the year		7,865	7,437
6,915	Net operating result attributable to council		7,865	7,437
306	Net operating result for the year before grants and contributions provided for capital purposes		(610)	(792)

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

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

Statement of Comprehensive Income

for the year ended 30 June 2019

\$ '000	Notes	2019	2018 ¹
Net operating result for the year (as per Income Statement)		7,865	7,437
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9(a)	29,480	16,676
Impairment (loss) reversal relating to IPP&E	9(a)	457	1,623
Total items which will not be reclassified subsequently to the operating result		29,937	18,299
Total other comprehensive income for the year		29,937	18,299
Total comprehensive income for the year		37,802	25,736
 Total comprehensive income attributable to Council		 37,802	 25,736

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

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

Statement of Financial Position

as at 30 June 2019

\$ '000	Notes	2019	2018 ¹
ASSETS			
Current assets			
Cash and cash equivalent assets	6(a)	13,211	13,234
Receivables	7	4,382	7,108
Inventories	8	1,370	1,273
Total current assets		18,963	21,615
Non-current assets			
Infrastructure, property, plant and equipment	9(a)	442,798	402,690
Total non-current assets		442,798	402,690
TOTAL ASSETS		461,761	424,305
LIABILITIES			
Current liabilities			
Payables	10	3,178	2,639
Borrowings	10	263	252
Provisions	11	2,511	2,317
Total current liabilities		5,952	5,208
Non-current liabilities			
Payables	10	138	200
Borrowings	10	2,242	2,505
Provisions	11	851	1,616
Total non-current liabilities		3,231	4,321
TOTAL LIABILITIES		9,183	9,529
Net assets		452,578	414,776
EQUITY			
Accumulated surplus	12a	166,515	158,650
Revaluation reserves	12a	286,063	256,126
Council equity interest		452,578	414,776
Total equity		452,578	414,776

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

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

Statement of Changes in Equity

for the year ended 30 June 2019

\$ '000	Notes	2019			2018 ¹		
		Accumulated surplus	IPP&E revaluation reserve	Total equity	Accumulated surplus	IPP&E revaluation reserve	Total equity
Opening balance		158,650	256,126	414,776	151,213	237,827	389,040
Net operating result for the year		7,865	–	7,865	7,437	–	7,437
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9(a)	–	29,480	29,480	–	16,676	16,676
– Impairment (loss) reversal relating to IPP&E	9(a)	–	457	457	–	1,623	1,623
Other comprehensive income		–	29,937	29,937	–	18,299	18,299
Total comprehensive income		7,865	29,937	37,802	7,437	18,299	25,736
Equity – balance at end of the reporting period		166,515	286,063	452,578	158,650	256,126	414,776

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

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

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
	Receipts			
9,814	Rates and annual charges		10,053	9,347
6,482	User charges and fees		10,784	5,867
354	Investment and interest revenue received		287	428
13,529	Grants and contributions		16,924	14,457
–	Bonds, deposits and retention amounts received		–	174
74	Other		256	205
	Payments			
(8,481)	Employee benefits and on-costs		(8,363)	(7,778)
(5,177)	Materials and contracts		(6,796)	(3,944)
(290)	Borrowing costs		(138)	(151)
–	Bonds, deposits and retention amounts refunded		(124)	–
(2,167)	Other		(617)	(2,165)
14,138	Net cash provided from (or used in) operating activities	13b	22,266	16,440
Cash flows from investing activities				
	Receipts			
–	Sale of infrastructure, property, plant and equipment		367	643
	Payments			
(17,141)	Purchase of infrastructure, property, plant and equipment		(22,404)	(25,795)
(17,141)	Net cash provided from (or used in) investing activities		(22,037)	(25,152)
Cash flows from financing activities				
	Payments			
(686)	Repayment of borrowings and advances		(252)	(241)
(686)	Net cash flow provided from (used in) financing activities		(252)	(241)
(3,689)	Net increase/(decrease) in cash and cash equivalents		(23)	(8,953)
13,440	Plus: cash and cash equivalents – beginning of year	13a	13,234	22,187
9,751	Cash and cash equivalents – end of the year	13a	13,211	13,234

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

Notes to the Financial Statements

for the year ended 30 June 2019

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Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation

These financial statements were authorised for issue by Council on 28/10/2019. Council has the power to amend and reissue these financial statements.

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

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

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

Council is a not for-profit entity.

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

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

- Income statement
- Statement of cash flows
- Note 18 – 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.

(b) Historical cost convention

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

(c) Significant accounting estimates and judgements

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

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

Critical accounting estimates and assumptions

Council makes estimates and assumptions concerning the future.

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

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

- (i) estimated fair values of infrastructure, property, plant and equipment – refer Note 9
- (ii) estimated tip remediation provisions – refer Note 11
- (iii) employee benefit provisions – refer Note 11.

Significant judgements in applying the council's accounting policies

- (i) Impairment of receivables

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Monies and other assets received by Council

(a) The Consolidated Fund

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

The Consolidated fund has been included in the financial statements of Council.

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

- General purpose operations
- Water service
- Sewerage service
- Domestic Waste Management

(b) The Trust Fund

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

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

The following Trust monies and properties are held by Council but not considered to be under the control of Council and therefore are excluded from these financial statements:

- Companion Animals Receipts.
- Unclaimed Monies.
- Monumental Deposits.
- Long Services Levies.

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

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period and which have not been adopted.

As at the date of authorisation of these financial statements, Council considers that the standards and interpretations listed below will have an impact upon future published financial statements ranging from additional and / or revised disclosures to actual changes as to how certain transactions and balances are accounted for.

Effective for annual reporting periods beginning on or after 1 July 2019

- AASB 15 Revenue from Contracts with Customers, AASB 1058 Income of Not-for-Profit Entities and AASB 2016-8 Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not-for-Profit Entities

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

AASB 15 will replace AASB 118 Revenue, AASB 111 Construction Contracts and a number of interpretations. AASB 2016-8 provides Australian requirements and guidance for not-for-profit entities in applying AASB 9 and AASB 15, and AASB 1058 will replace AASB 1004 Contributions. These standards may affect the timing of the recognition of some grants and donations.

Together they contain a comprehensive and robust framework for the recognition, measurement and disclosure of income including revenue from contracts with customers.

Based on Council's analysis, the impact on Council's revenue, net operating result and financial position would be considered immaterial if Council was to adopt the new revenue standards for the year ended 30 June 2019.

Council is unable to reliably estimate the impact on the financial statements for the year ended 30 June 2020 as the main impact could be on the treatment of certain capital and operational grant revenues. Council is unsure what potential new grants impacted by the new standards it may obtain in the 2020 financial year and also whether certain grants would remain materially incomplete as at 30 June 2020.

- AASB 16 Leases

Council is currently a party to leases that are not recognised in the Statement of Financial Position.

Based upon Council's investigation and analysis, Council did not identify any leases which require adjustment to their current accounting treatment under AASB 16. Council therefore considers the impact of adopting AASB 16 on the financial statements for the 2019-20 financial year to not be material due to the leases identified being immaterial or Council is able to apply the short-term and low-value asset exemptions.

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Governance	–	–	476	434	(476)	(434)	–	–	–	–
Administration	75	75	1,126	1,096	(1,051)	(1,021)	75	75	14,002	13,226
Personnel	60	62	301	422	(241)	(360)	–	–	–	–
Finance	10,663	9,284	525	524	10,138	8,760	3,710	2,528	–	–
Crown reserves	270	–	108	6	162	(6)	270	–	–	–
Town planning	182	157	469	348	(287)	(191)	–	–	–	–
Environmental health	184	144	448	359	(264)	(215)	–	–	–	–
Building control	72	62	83	87	(11)	(25)	–	–	–	–
Animal control	24	18	119	125	(95)	(107)	–	–	58	51
Other waste management	817	947	689	860	128	87	55	90	1,335	2,662
Strategic, community & cultural services	35	16	656	515	(621)	(499)	26	7	–	–
Pre schools	–	–	66	65	(66)	(65)	–	–	–	–
Public libraries	42	49	442	379	(400)	(330)	38	44	106	9
Regional roads	1,488	1,694	1,862	1,759	(374)	(65)	364	593	58,830	57,515
Urban roads	222	262	966	912	(744)	(650)	222	257	14,711	14,538
Rural roads	5,331	3,911	5,855	4,315	(524)	(404)	5,301	3,892	134,724	130,389
Bridges	2,429	4,691	3,240	1,261	(811)	3,430	2,426	4,687	122,830	95,126
Emergency services	247	468	714	465	(467)	3	232	454	2,545	2,605
Swimming pools	156	129	778	688	(622)	(559)	17	–	3,488	3,410
Parks & gardens	387	150	702	674	(315)	(524)	385	137	3,804	3,207
Community buildings	783	825	277	273	506	552	618	299	9,440	7,688
Public cemeteries	109	151	143	165	(34)	(14)	–	–	152	158
Stormwater drainage	544	250	494	146	50	104	370	79	25,498	25,140
Engineering administration	305	164	104	74	201	90	–	72	–	–

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Water supplies	1,671	1,570	1,725	1,160	(54)	410	46	78	28,178	28,036
Sewerage services	1,452	1,396	1,349	1,053	103	343	–	26	28,887	27,879
Domestic waste management	957	932	1,093	855	(136)	77	–	29	(214)	(79)
State highways	6,677	3,902	5,985	3,674	692	228	–	–	1,806	1,815
Quarries	352	33	(646)	(142)	998	175	–	–	1,875	1,361
Plant fund	44	61	(2,436)	1,414	2,480	(1,353)	–	–	9,706	9,569
Total functions and activities	35,578	31,403	27,713	23,966	7,865	7,437	14,155	13,347	461,761	424,305

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

Governance

Includes costs relating to Council's role as a component of democratic government, including elections, member's fees and expenses, meetings of Council and policy-making committees, public disclosure (e.g. GIPA), and legislative compliance.

Administration

Includes corporate support and other support services and any Council Policy compliance.

Personnel

Includes costs relating to payroll, human resources and workplace health and safety.

Finance

Includes rates, accounts receivable, accounts payable and annual financial reporting requirements.

Crown reserves

Includes costs relating to reserves not controlled by council.

Town Planning

Includes costs relating to planning activities.

Environmental health

Includes costs relating to environmental activities.

Building control

Includes costs relating to building inspections.

Animal control

Includes costs relating to regulatory activities.

Other waste management

Includes costs relating to waste management.

Strategic, community and cultural services

Includes costs relating to Economic development, tourism, visitor information centre, community services and art galleries.

Pre schools

Includes building maintenance and operating contributions to local pre schools.

Public libraries

Includes costs relating to the regional library.

Regional roads

Includes costs relating to sealed and unsealed regional roads and bridges.

Urban roads

Includes costs relating to sealed and unsealed urban roads and footpaths.

Rural roads

Includes costs relating to sealed and unsealed rural roads.

Bridges

Includes coists relating to rural bridges.

Emergency services

Includes costs relating to rural fire brigades, town brigade and state emergency services.

Swimming pools

Includes costs relating to Kyogle, Bonalbo and Woodenbong pool.

Notes to the Financial Statements

for the year ended 30 June 2019

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

Parks and gardens

Includes costs relating to parks, gardens and sporting fields.

Community buildings

Includes costs relating to community buildings.

Public cemeteries

Includes costs relating to cemeteries, lawn cemetery and columbarium walls.

Stormwater drainage

Includes costs relating to drainage improvements and flood mitigation.

Engineering administration

Includes costs relating to provision of engineering services.

Water supplies

All matters relating to the provision of water supplies.

Sewerage services

All matters relating to the provision of sewerage services.

Domestic waste management

Includes costs relating to collection of residential and commercial bins.

State highways

All matters relating to works conducted on state highways.

Quarries

All matters relating to the production of quarry materials for council roadworks.

Plant fund

All matters relating to councils vehicle fleet.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations

\$ '000	2019	2018
(a) Rates and annual charges		
Ordinary rates		
Residential	3,127	2,801
Farmland	3,332	3,301
Business	291	274
Less: pensioner rebates (mandatory)	(224)	(217)
Rates levied to ratepayers	6,526	6,159
Pensioner rate subsidies received	124	116
Total ordinary rates	6,650	6,275
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Domestic waste management services	977	951
Water supply services	861	811
Sewerage services	1,203	1,152
Drainage	173	169
Waste management services (non-domestic)	287	277
Less: pensioner rebates (mandatory)	(150)	(148)
Annual charges levied	3,351	3,212
Pensioner subsidies received:		
– Water	27	27
– Sewerage	26	26
– Domestic waste management	29	29
Total annual charges	3,433	3,294
TOTAL RATES AND ANNUAL CHARGES	10,083	9,569

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

Accounting policy for rates and charges

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Water supply services	773	711
Sewerage services	265	258
Waste management services (non-domestic)	599	552
Total specific user charges	1,637	1,521
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Building services – other	17	24
Inspection services	122	75
Planning and building regulation	194	160
Private works – section 67	213	85
Section 603 certificates	21	24
Other	205	153
Art galleries	4	5
Caravan parks	116	136
Cemeteries	109	151
Pools	139	129
Quarries	352	33
RMS (formerly RTA) charges (State roads not controlled by council)	6,677	3,902
Total fees and charges – statutory/regulatory	8,169	4,877
TOTAL USER CHARGES AND FEES	9,806	6,398

Accounting policy for user charges and fees

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
(c) Interest and investment revenue (including losses)		
Interest on financial assets measured at amortised cost		
– Overdue rates and annual charges (incl. special purpose rates)	53	78
– Cash and investments	232	303
– Other	3	3
TOTAL INTEREST AND INVESTMENT REVENUE	288	384

Interest revenue is attributable to:**Unrestricted investments/financial assets:**

Overdue rates and annual charges (general fund)	–	78
General Council cash and investments	274	291

Restricted investments/funds – external:

Development contributions		
– Section 7.11	2	2
– Section 64	1	1
Water fund operations	3	3
Sewerage fund operations	4	4
Domestic waste management operations	4	5

Total interest and investment revenue	288	384
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Accounting policy for interest and investment revenue

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

Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(d) Other revenues

Woodenbong Reinstatement Liability Reversal	–	149
Other	20	26
TOTAL OTHER REVENUE	20	175

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(e) Grants				
General purpose (untied)				
Current year allocation				
Financial assistance	2,214	2,080	–	–
Payment in advance - future year allocation				
Financial assistance	2,295	2,136	–	–
Total general purpose	4,509	4,216	–	–
Specific purpose				
Bushfire and emergency services	232	–	–	454
Library	38	44	–	100
LIRS subsidy	46	51	–	–
Storm/flood damage	358	23	–	–
Street lighting	34	34	–	–
Transport (other roads and bridges funding)	230	1,109	7,100	6,701
Community projects	391	84	1,150	369
FESL	–	19	–	–
Flood mitigation	–	55	12	–
Waste sustainability	55	56	–	32
Total specific purpose	1,384	1,475	8,262	7,656
Total grants	5,893	5,691	8,262	7,656
Grant revenue is attributable to:				
– Commonwealth funding	4,660	5,138	3,239	1,771
– State funding	1,233	553	5,023	5,885
	5,893	5,691	8,262	7,656

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	Notes	Operating 2019	Operating 2018	Capital 2019	Capital 2018
(f) Contributions					
Developer contributions: (s7.4 & s7.11 - EP&A Act, s64 of the LGA):					
Cash contributions					
S 7.11 – contributions towards amenities/services		29	12	14	30
S 64 – water supply contributions		–	–	2	3
S 64 – sewerage service contributions		–	–	1	2
S 64 – stormwater contributions		–	–	–	2
Total developer contributions – cash		29	12	17	37
Total developer contributions	21	29	12	17	37
Other contributions:					
Cash contributions					
Recreation and culture		–	–	–	354
RMS contributions (regional roads, block grant)		925	905	189	182
Other		59	40	7	–
Total other contributions – cash		984	945	196	536
Total other contributions		984	945	196	536
Total contributions		1,013	957	213	573
TOTAL GRANTS AND CONTRIBUTIONS		6,906	6,648	8,475	8,229

Accounting policy for grants and contributions

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 3. Income from continuing operations (continued)

\$ '000	2019	2018
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(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	16	55
Add: operating grants recognised in the current period but not yet spent	196	5
Less: operating grants recognised in a previous reporting period now spent	(2)	(44)
Unexpended and held as restricted assets (operating grants)	210	16

Various grants for crown reserves

Capital grants

Unexpended at the close of the previous reporting period	202	261
Add: capital grants recognised in the current period but not yet spent	1,586	202
Less: capital grants recognised in a previous reporting period now spent	(92)	(261)
Unexpended and held as restricted assets (capital grants)	1,696	202

Various grants for flood damage, parks, community buildings and libraries

Contributions

Unexpended at the close of the previous reporting period	156	276
Add: contributions recognised in the current period but not yet spent	161	53
Less: contributions recognised in a previous reporting period now spent	(156)	(173)
Unexpended and held as restricted assets (contributions)	161	156

Developer contributions under S7.11 and S64 plans

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations

\$ '000	2019	2018
(a) Employee benefits and on-costs		
Salaries and wages	7,388	6,916
Employee leave entitlements (ELE)	1,674	1,523
Superannuation – defined contribution plans	763	681
Superannuation – defined benefit plans	146	155
Workers' compensation insurance	132	144
Fringe benefit tax (FBT)	10	13
Training costs (other than salaries and wages)	141	152
Other	112	121
Total employee costs	10,366	9,705
Less: capitalised costs	(1,846)	(1,816)
TOTAL EMPLOYEE COSTS EXPENSED	8,520	7,889
Number of 'full-time equivalent' employees (FTE) at year end	111	106

Accounting policy for employee benefits and on-costs

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

Retirement benefit obligations

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

Superannuation plans

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

Council participates in a defined benefit plan under the Local Government Superannuation Scheme, however, sufficient information to account for the plan as a defined benefit is not available and therefore Council accounts for its obligations to defined benefit plans on the same basis as its obligations to defined contribution plans, i.e. as an expense when it becomes payable – refer to Note 16 for more information.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(b) Borrowing costs			
(i) Interest bearing liability costs			
Interest on loans		138	149
Total interest bearing liability costs expensed		138	149
(ii) Other borrowing costs			
Discount adjustments relating to movements in provisions (other than ELE)			
– Remediation liabilities	11	8	36
Total other borrowing costs		8	36
TOTAL BORROWING COSTS EXPENSED		146	185

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.

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	6,366	4,177
Auditors remuneration ¹	62	57
Legal expenses:		
– Legal expenses: debt recovery	27	43
– Legal expenses: other	32	14
Total materials and contracts	6,487	4,291
TOTAL MATERIALS AND CONTRACTS	6,487	4,291

1. Auditor remuneration

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

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

Audit and review of financial statements	60	56
Remuneration for audit and other assurance services	60	56
Total Auditor-General remuneration	60	56

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

Other audit services	2	1
Remuneration for audit and other assurance services	2	1
Total remuneration of non NSW Auditor-General audit firms	2	1
Total Auditor remuneration	62	57

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	Notes	2019	2018
(d) Depreciation, amortisation and impairment of intangible assets and IPP&E			
Depreciation and amortisation			
Plant and equipment		1,151	1,112
Office equipment		88	77
Furniture and fittings		1	1
Land improvements (depreciable)		22	21
Infrastructure:			
– Buildings – non-specialised		61	57
– Buildings – specialised		328	306
– Other structures		195	201
– Roads		3,782	3,459
– Bridges		1,130	858
– Footpaths		56	54
– Stormwater drainage		70	70
– Water supply network		295	244
– Sewerage network		185	184
– Swimming pools		69	56
Reinstatement, rehabilitation and restoration assets:			
– Tip assets	9(a), 11	1	23
– Quarry assets	9(a), 11	29	45
Total gross depreciation and amortisation costs		7,463	6,768
Total depreciation and amortisation costs		7,463	6,768
Impairment / revaluation decrement of IPP&E			
Land improvements (depreciable)		–	450
Infrastructure:			
– Other structures		–	236
– Roads		(293)	(578)
– Bridges		(164)	(1,045)
Total gross IPP&E impairment / revaluation decrement costs / (reversals)		(457)	(937)
Amounts taken through revaluation reserve		457	1,623
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	686
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E		7,463	7,454

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

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

Impairment of non-financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

Other assets that do not meet the criteria above are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

\$ '000	2019	2018
(e) Other expenses		
Advertising	64	72
Bad and doubtful debts	2	(25)
Councillor expenses – mayoral fee	26	25
Councillor expenses – councillors' fees	107	104
Councillors' expenses (incl. mayor) – other (excluding fees above)	45	31
Donations, contributions and assistance to other organisations (Section 356)	282	264
Electricity and heating	368	293
Emergency services	300	297
Insurance	361	316
Regional library	367	350
Street lighting	147	135
Subscriptions and publications	12	14
Telephone and communications	89	83
Total other expenses	2,170	1,959
TOTAL OTHER EXPENSES	2,170	1,959

Accounting policy for other expenses

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	Notes	2019	2018
Plant and equipment	9(a)		
Proceeds from disposal – plant and equipment		367	643
Less: carrying amount of plant and equipment assets sold/written off		(245)	(528)
Net gain/(loss) on disposal		122	115
Infrastructure	9(a)		
Less: carrying amount of infrastructure assets sold/written off		(3,049)	(2,303)
Net gain/(loss) on disposal		(3,049)	(2,303)
NET GAIN/(LOSS) ON DISPOSAL OF ASSETS		(2,927)	(2,188)

Accounting policy for disposal of assets

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

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

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	5,211	4,834
Cash-equivalent assets		
– Deposits at call	8,000	8,400
Total cash and cash equivalents	13,211	13,234

Accounting policy for cash and cash equivalents

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	13,211	–	13,234	–
attributable to:				
External restrictions	2,407	–	1,533	–
Internal restrictions	7,429	–	8,122	–
Unrestricted	3,375	–	3,579	–
	13,211	–	13,234	–

\$ '000	2019	2018
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Details of restrictions

External restrictions – included in liabilities

Retention bonds and deposits	277	401
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External restrictions – included in liabilities

External restrictions – other

Developer contributions – general	107	105
Developer contributions – sewer fund	53	51
Specific purpose unexpended grants	1,906	218
Water supplies	371	539
Sewerage services	60	444
Domestic waste management	(367)	(225)

External restrictions – other

Total external restrictions

Internal restrictions

Plant and vehicle replacement	1,479	1,316
Employees leave entitlement	1,381	1,321
Carry over works	464	1,904
Building replacement	150	150
Commercial waste	138	855
Emergency works	500	500
Information technology	100	100
Quarries	1,052	662
Roads and bridges	1,000	1,000
Stormwater management	200	200
Transport	965	114

Total internal restrictions

TOTAL RESTRICTIONS

	9,836	9,655
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Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Purpose				
Rates and annual charges	729	2	699	3
User charges and fees	1,129	–	2,107	–
Accrued revenues				
– Interest on investments	12	–	11	–
Government grants and subsidies	2,516	–	4,059	–
Net GST receivable	–	–	234	–
Other debtors	1	–	1	–
Total	4,387	2	7,111	3
Less: provision of impairment				
Rates and annual charges	–	(2)	–	(3)
Other debtors	(5)	–	(3)	–
Total provision for impairment – receivables	(5)	(2)	(3)	(3)
TOTAL NET RECEIVABLES	4,382	–	7,108	–

Externally restricted receivables

Water supply

– Rates and availability charges	134	–	142	–
– Other	170	–	178	–

Sewerage services

– Rates and availability charges	155	–	156	–
– Other	65	–	63	–

Domestic waste management

	153	–	146	–
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Total external restrictions	677	–	685	–
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Unrestricted receivables	3,705	–	6,423	–
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TOTAL NET RECEIVABLES	4,382	–	7,108	–
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\$ '000	2019	2018
Movement in provision for impairment of receivables		
Balance at the beginning of the year (calculated in accordance with AASB 139)	6	154
– amounts already provided for and written off this year	1	(148)
Balance at the end of the period	7	6

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

Accounting policy for receivables

Recognition and measurement

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

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

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

Impairment

Accounting policy under AASB 9 applicable from 1 July 2018

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

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

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

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

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

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

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

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

The Council writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the receivables are over 1 year past due, whichever occurs first.

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

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

Accounting policy under AASB 139 – applicable for 2018 comparatives only

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

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

Rates and annual charges outstanding are secured against the property.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 8. Inventories and other assets

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Inventories				
(i) Inventories at cost				
Stores and materials	974	–	1,042	–
Trading stock	396	–	231	–
Total inventories at cost	1,370	–	1,273	–
<u>TOTAL INVENTORIES</u>	<u>1,370</u>	<u>–</u>	<u>1,273</u>	<u>–</u>

Accounting policy for inventories and other assets

Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

for the year ended 30 June 2019

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

	as at 30/6/2018			Asset movements during the reporting period									as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals	Additions new assets	Reinstatement costs for impaired assets	Carrying value of disposals	Depreciation expense	Impairment loss (recognised in equity)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000															
Capital work in progress	3,212	—	3,212	2,564	407	—	—	—	—	(2,961)	—	—	3,222	—	3,222
Plant and equipment	13,915	(7,139)	6,776	1,227	—	—	(246)	(1,151)	—	—	—	—	14,520	(7,914)	6,606
Office equipment	795	(623)	172	38	—	—	—	(88)	—	—	—	—	831	(709)	122
Furniture and fittings	31	(22)	9	—	—	—	—	(1)	—	—	—	—	31	(23)	8
Land:															
– Crown land	1,442	—	1,442	—	—	—	—	—	—	—	—	—	1,442	—	1,442
– Operational land	4,392	—	4,392	—	—	—	—	—	—	—	—	—	4,392	—	4,392
– Community land	1,603	—	1,603	—	—	—	—	—	—	—	—	—	1,603	—	1,603
– Land under roads (pre 1/7/08)	1,744	—	1,744	—	—	—	—	—	—	—	—	—	1,744	—	1,744
– Land under roads (post 30/6/08)	2	—	2	—	—	—	—	—	—	—	—	—	2	—	2
Land improvements – depreciable	834	(304)	530	—	—	—	—	(22)	—	—	—	21	869	(340)	529
Infrastructure:															
– Buildings – non-specialised	3,593	(1,542)	2,051	—	—	—	—	(61)	—	—	—	140	3,800	(1,670)	2,130
– Buildings – specialised	23,180	(12,081)	11,099	811	206	—	—	(328)	—	620	—	495	25,803	(12,900)	12,903
– Other structures	6,094	(2,771)	3,323	39	381	—	(5)	(195)	—	7	—	153	6,706	(3,003)	3,703
– Roads	238,344	(66,714)	171,630	7,827	1,817	1,162	(951)	(3,782)	293	248	—	1,763	248,804	(68,797)	180,007
– Bridges	126,651	(32,525)	94,126	3,594	—	332	(1,950)	(1,130)	164	2,045	—	24,650	166,406	(44,575)	121,831
– Footpaths	3,660	(613)	3,047	—	—	—	—	(56)	—	—	—	92	3,771	(688)	3,083
– Bulk earthworks (non-depreciable)	15,412	—	15,412	—	373	—	(30)	—	—	—	—	402	16,157	—	16,157
– Stormwater drainage	28,070	(3,130)	24,940	15	—	—	(8)	(70)	—	41	—	380	28,544	(3,246)	25,298
– Water supply network	32,048	(4,922)	27,126	51	64	—	—	(295)	—	—	—	390	32,633	(5,297)	27,336
– Sewerage network	33,191	(6,026)	27,165	680	69	—	(104)	(185)	—	—	—	922	33,777	(5,230)	28,547
– Swimming pools	5,280	(3,194)	2,086	—	—	—	—	(69)	—	—	—	72	5,502	(3,413)	2,089
Reinstatement, rehabilitation and restoration assets (refer Note 14):															
– Tip assets	1,059	(324)	735	—	—	—	—	(1)	—	—	(719)	—	340	(325)	15
– Quarry assets	379	(311)	68	—	—	—	—	(29)	—	—	(10)	—	369	(340)	29
Total Infrastructure, property, plant and equipment	544,931	(142,241)	402,690	16,846	3,317	1,494	(3,294)	(7,463)	457	—	(729)	29,480	601,268	(158,470)	442,798

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

	as at 30/6/2017			Asset movements during the reporting period										as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Reinstatement costs for impaired assets	Carrying value of disposals	Depreciation expense	Impairment loss / revaluation decrements (recognised in P/L)	Impairment reversal (recognised in equity)	WIP transfers	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
\$ '000																
Capital work in progress	3,938	—	3,938	2,339	617	—	—	—	—	—	(3,682)	—	—	3,212	—	3,212
Plant and equipment	13,679	(7,181)	6,498	1,918	—	—	(528)	(1,112)	—	—	—	—	—	13,915	(7,139)	6,776
Office equipment	688	(545)	143	106	—	—	—	(77)	—	—	—	—	—	795	(623)	172
Furniture and fittings	31	(21)	10	—	—	—	—	(1)	—	—	—	—	—	31	(22)	9
Land:																
– Operational land	3,689	—	3,689	—	—	—	—	—	—	—	—	—	703	4,392	—	4,392
– Community land	559	—	559	—	—	—	—	—	—	—	—	—	1,044	1,603	—	1,603
– Crown land	1,442	—	1,442	—	—	—	—	—	—	—	—	—	—	1,442	—	1,442
– Land under roads (pre 1/7/08)	1,745	—	1,745	—	—	—	—	—	—	—	—	—	(1)	1,744	—	1,744
– Land under roads (post 30/6/08)	2	—	2	—	—	—	—	—	—	—	—	—	—	2	—	2
Land improvements – depreciable	1,802	(727)	1,075	—	—	—	—	(21)	(450)	—	—	—	(74)	834	(304)	530
Infrastructure:																
– Buildings – non-specialised	4,023	(1,334)	2,689	—	—	—	—	(57)	—	—	—	—	(581)	3,593	(1,542)	2,051
– Buildings – specialised	23,696	(13,319)	10,377	80	517	—	—	(306)	—	—	—	—	431	23,180	(12,081)	11,099
– Other structures	6,977	(2,416)	4,561	40	531	—	(6)	(201)	(236)	—	6	—	(1,372)	6,094	(2,771)	3,323
– Roads	229,892	(72,404)	157,488	6,288	110	2,507	(78)	(3,459)	—	578	466	—	7,730	238,344	(66,714)	171,630
– Bridges	118,077	(38,658)	79,419	7,397	—	—	(1,612)	(858)	—	1,045	1,446	—	7,289	126,651	(32,525)	94,126
– Footpaths	3,487	(546)	2,941	95	—	—	(7)	(54)	—	—	—	—	72	3,660	(613)	3,047
– Bulk earthworks (non-depreciable)	14,903	—	14,903	—	—	—	—	—	—	—	—	—	509	15,412	—	15,412
– Stormwater drainage	27,443	(2,890)	24,553	259	—	—	(191)	(70)	—	—	—	—	389	28,070	(3,130)	24,940
– Water supply network	29,932	(6,260)	23,672	1,338	50	—	(248)	(244)	—	—	1,764	—	794	32,048	(4,922)	27,126
– Sewerage network	32,487	(5,416)	27,071	697	—	—	(161)	(184)	—	—	—	—	(258)	33,191	(6,026)	27,165
– Swimming pools	5,696	(3,555)	2,141	—	—	—	—	(56)	—	—	—	—	1	5,280	(3,194)	2,086
Reinstatement, rehabilitation and restoration assets (refer Note 14):																
– Tip assets	1,254	(601)	653	—	—	—	—	(23)	—	—	—	105	—	1,059	(324)	735
– Quarry assets	389	(266)	123	—	—	—	—	(45)	—	—	—	(10)	—	379	(311)	68
Total Infrastructure, property, plant and equipment	525,831	(156,139)	369,692	20,557	1,825	2,507	(2,831)	(6,768)	(686)	1,623	—	95	16,676	544,931	(142,241)	402,690

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

Accounting policy for infrastructure, property, plant and equipment

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

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

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

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

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

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

Plant and equipment	Years	Other equipment	Years
Office equipment	5	Playground equipment	5 to 15
Office furniture	5	Benches, seats etc.	10 to 20
Computer equipment	3		
Vehicles	10 to 20	Buildings	
Heavy plant/road making equipment	10	Buildings: masonry	80 to 170
Other plant and equipment	10	Buildings: other	15 to 65
Water and sewer assets		Stormwater assets	
Civil works	40 to 195	Drains	144 to 203
Mechanical and electrical	25 to 92	Culverts	150 to 203
Reticulation pipes: Water	65 to 203		
Reticulation pipes: Sewer	133 to 319		
Transportation assets			
Sealed roads: surface	10 to 35		
Sealed roads: structure	100		
Unsealed roads	20 to 38		
Bridge: concrete	141		
Bridge: timber	141		
Road pavements	125		
Kerb, gutter and footpaths	30 to 70		

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

Land under roads

Land under roads is land under roadways and road reserves including land under footpaths, nature strips and median strips. Council has elected to recognise land under roads acquired before 1 July 2008 in accordance with AASB 1051 Land Under Roads.

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

Crown reserves

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

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

Rural Fire Service assets

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

Up until 2008-09, Council recognised all new rural fire service assets including plant and vehicles, however since then, Council has not recognised any new rural fire service assets. Until such time as discussions on this matter have concluded and the legislation changed accordingly, Council will continue to not recognise any new rural fire service assets.

Note 9(b). Externally restricted infrastructure, property, plant and equipment

\$ '000	2019			2018		
	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount	Gross carrying amount	Accumulated depn. and impairment	Net carrying amount
Water supply						
WIP	167	—	167	51	—	51
Infrastructure	32,633	5,297	27,336	32,048	4,922	27,126
Total water supply	32,800	5,297	27,503	32,099	4,922	27,177
Sewerage services						
WIP	7	—	7	—	—	—
Infrastructure	33,777	5,230	28,547	33,191	6,026	27,165
Total sewerage services	33,784	5,230	28,554	33,191	6,026	27,165
<u>TOTAL RESTRICTED I, PP&E</u>	66,584	10,527	56,057	65,290	10,948	54,342

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9(c). Infrastructure, property, plant and equipment – current year impairments

\$ '000	Notes	2019	2018
(i) Impairment losses recognised in the Income Statement:			
Revaluation of land improvements		–	(450)
Revaluation of other structures		–	(236)
Total impairment losses		–	(686)
IMPAIRMENT OF ASSETS – GAINS/(LOSSES) in P/L	4d	–	(686)
(ii) Reversals of impairment losses previously recognised direct to equity (ARR):			
Roads assets impaired during March 2017 flood		293	578
Bridge assets impaired during March 2017 flood		164	1,045
Total impairment reversals		457	1,623
IMPAIRMENT OF ASSETS – DIRECT to EQUITY (ARR)		457	1,623

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Government departments and agencies	1,403	—	—	—
Goods and services – operating expenditure	787	—	999	—
Goods and services – capital expenditure	463	—	1,219	—
Accrued expenses:				
– Borrowings	11	—	12	—
– Salaries and wages	106	—	98	—
– Other expenditure accruals	132	—	110	—
Security bonds, deposits and retentions	139	138	201	200
ATO – net GST payable	137	—	—	—
Total payables	3,178	138	2,639	200
Borrowings				
Loans – secured ¹	263	2,242	252	2,505
Total borrowings	263	2,242	252	2,505
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>3,441</u>	<u>2,380</u>	<u>2,891</u>	<u>2,705</u>

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

Disclosures on liability interest rate risk exposures, fair value disclosures and security can be found in Note 17.

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
(a) Payables and borrowings relating to restricted assets				
Externally restricted assets				
Water	310	1,265	394	1,477
Sewer	26	811	115	833
Payables and borrowings relating to externally restricted assets	336	2,076	509	2,310
Total payables and borrowings relating to restricted assets	336	2,076	509	2,310
Total payables and borrowings relating to unrestricted assets	3,105	304	2,382	395
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>3,441</u>	<u>2,380</u>	<u>2,891</u>	<u>2,705</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Payables and borrowings (continued)

(b) Changes in liabilities arising from financing activities

	as at 30/6/2018					as at 30/6/2019
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	2,757	(252)	–	–	–	2,505
TOTAL	2,757	(252)	–	–	–	2,505

	as at 30/6/2017					as at 30/6/2018
\$ '000	Opening Balance	Cash flows	Non-cash acquisitions	Non-cash fair value changes	Other non-cash movements	Closing balance
Loans – secured	2,998	(241)	–	–	–	2,757
TOTAL	2,998	(241)	–	–	–	2,757

\$ '000	2019	2018
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(c) Financing arrangements

(i) Unrestricted access was available at balance date to the following lines of credit:

Credit cards/purchase cards	12	10
Total financing arrangements	12	10

Undrawn facilities as at balance date:

– Credit cards/purchase cards	12	10
Total undrawn financing arrangements	12	10

Additional financing arrangements information

Breaches and defaults

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Payables and borrowings (continued)

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

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

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

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

Finance leases

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	969	–	916	–
Long service leave	1,374	137	1,251	182
Other leave – time in lieu	51	–	40	–
ELE on-costs	117	–	110	–
Sub-total – aggregate employee benefits	2,511	137	2,317	182
Asset remediation/restoration:				
Asset remediation/restoration (future works)	–	714	–	1,434
Sub-total – asset remediation/restoration	–	714	–	1,434
<u>TOTAL PROVISIONS</u>	<u>2,511</u>	<u>851</u>	<u>2,317</u>	<u>1,616</u>

(a) Provisions relating to restricted assets

Externally restricted assets

Water	102	–	89	–
Sewer	102	–	89	–
Provisions relating to externally restricted assets	204	–	178	–
Total provisions relating to restricted assets	204	–	178	–
Total provisions relating to unrestricted assets	2,307	851	2,139	1,616
<u>TOTAL PROVISIONS</u>	<u>2,511</u>	<u>851</u>	<u>2,317</u>	<u>1,616</u>

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

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

Provisions – employees benefits	1,191	1,076
	<u>1,191</u>	<u>1,076</u>

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions (continued)

(c) Description of and movements in provisions

\$ '000	Other provisions	
	Asset remediation	Total
2019		
At beginning of year	1,434	1,434
Remeasurement effects	(729)	(729)
Unwinding of discount	9	9
Total other provisions at end of period	714	714
2018		
At beginning of year	1,605	1,605
Unused amounts reversed	(149)	(149)
Remeasurement effects	(58)	(58)
Unwinding of discount	36	36
Total other provisions at end of period	1,434	1,434

Nature and purpose of non-employee benefit provisions

Asset remediation

Council has a legal/public obligation to make, restore, rehabilitate and reinstate the council tip and quarries (please find the list below).

The asset remediation provision represents the present value estimate of future costs Council will incur to restore, rehabilitate and reinstate the tip and quarries as a result of past operations.

Asset/operation	Estimated year of restoration	NPV of provision	
		2019	2018
Tip Remediation - Kyogle	2022	138	855
Quarry Remediation - Millers	2028	160	161
Quarry Remediation - Medhurst	2028	206	208
Quarry Remediation - Griffiths	2025	157	157
Quarry Remediation - Lloyds	2025	53	54
Balance at the end of the reporting period		714	1,434

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions (continued)

Employee benefits

Short-term obligations

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

Other long-term employee benefit obligations

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

On-costs

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Provisions (continued)

Rehabilitation

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Accumulated surplus, revaluation reserves, changes in accounting policies, changes in accounting estimates and errors

(a) Nature and purpose of reserves

Infrastructure, property, plant and equipment revaluation reserve

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

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

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

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

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

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

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

Classification of financial assets

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

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

Measurement of equity instruments

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

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

Impairment of financial assets

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	13,211	13,234
Balance as per the Statement of Cash Flows		13,211	13,234
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		7,865	7,437
Adjust for non-cash items:			
Depreciation and amortisation		7,463	6,768
Net losses/(gains) on disposal of assets		2,927	2,188
Non-cash capital grants and contributions		—	207
Losses/(gains) recognised on fair value re-measurements through the P&L:			
Revaluation decrements / impairments of IPP&E direct to P&L		—	686
Unwinding of discount rates on reinstatement provisions		9	36
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		2,725	(1,771)
Increase/(decrease) in provision for impairment of receivables		1	(148)
Decrease/(increase) in inventories		(97)	672
Increase/(decrease) in payables		(212)	288
Increase/(decrease) in accrued interest payable		(1)	(2)
Increase/(decrease) in other accrued expenses payable		30	1
Increase/(decrease) in other liabilities		1,416	174
Increase/(decrease) in provision for employee benefits		149	111
Increase/(decrease) in other provisions		(9)	(207)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		22,266	16,440
(c) Non-cash investing and financing activities			
Estimated Future Reinstatement Costs		(720)	(207)
Total non-cash investing and financing activities		(720)	(207)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Interests in other entities

Subsidiaries, joint arrangements and associates not recognised

The following subsidiaries, joint arrangements and associates have not been recognised in this financial report.

Name of entity/operation	Principal activity/type of entity	2019 Net loss	2019 Net assets
Newlog	Vehicle Weight Limits	(291)	107

Reasons for non-recognition

The Council is a member of the North-East Weight of Loads Group. The constitution of the group specifies the council as having a part "ownership" of the groups net assets but not one member as having control. The stated objectives of the group include to generally promote the aims of reducing damage to Councils roads by policing of vehicles weight limits.

Council's share of the operations (12.5%) have been deemed as "immaterial" and therefore have not been incorporated into these Financial Statements.

Note 15. Commitments

\$ '000	2019	2018
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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	71	887
Plant and equipment	360	—
Sewer System Infrastructure	78	—
Total commitments	509	887

These expenditures are payable as follows:

Within the next year	509	887
Total payable	509	887

Sources for funding of capital commitments:

Unrestricted general funds	—	285
Future grants and contributions	—	602
Unexpended grants	71	—
Externally restricted reserves	78	—
Internally restricted reserves	360	—
Total sources of funding	509	887

Details of capital commitments

Kyogle Library, Vehicle Fleet, Kyogle Sewer Treatment Pond.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Contingencies and other assets/liabilities not recognised

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

LIABILITIES NOT RECOGNISED

1. Guarantees

(i) Defined benefit superannuation contribution plans

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

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

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

Description of the funding arrangements.

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

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

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

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

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

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

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

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

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

The amount of Council employer contributions to the defined benefit section of the Local Government Superannuation Scheme and recognised as an expense for the year ending 30 June 2019 was \$ 145,587.74. The last valuation of the Scheme was performed by Mr Richard Boyfield, FIAA on 31 December 2018, and covers the period ended 30 June 2018.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Contingencies and other assets/liabilities not recognised (continued)

The amount of additional contributions included in the total employer contribution advised above is \$139,600. Council's expected contribution to the plan for the next annual reporting period is \$160,775.

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

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

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

The share of this deficit that is broadly attributed to Council is estimated to be in the order of \$139,600 as at 30 June 2019.

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

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

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

* Plus promotional increases

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

(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.

(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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 16. Contingencies and other assets/liabilities not recognised (continued)

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) Richmond Upper-Clarence Regional Library

Council together with other local government authorities have entered into an agreement to operate a regional library known as the Richmond Upper-Clarence Regional Library. Annually, the Council contributes to the library to fund its activities based upon a prescribed formula. In the event that Council wishes to withdraw from the agreement, the assets and liabilities of the Regional Library attributable to Council will be determined by the Library Board of New South Wales.

(iii) Section 7.11 Infrastructure

Council has significant obligations to provide Section 7.11 infrastructure in new release areas. It is possible that funds contributed may be less than the cost of this infrastructure requiring Council to borrow or use general revenue to fund the difference (Refer Note 21).

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management

Risk management

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

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

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

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

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

\$ '000	Carrying value 2019	Carrying value 2018	Fair value 2019	Fair value 2018
Financial assets				
Measured at amortised cost				
Cash and cash equivalents	13,211	13,234	13,211	13,234
Receivables	4,382	7,108	4,382	7,108
Total financial assets	17,593	20,342	17,593	20,342
Financial liabilities				
Measured at amortised cost				
Payables	3,316	2,839	3,316	2,839
Loans/advances	2,505	2,757	3,051	3,239
Total financial liabilities	5,821	5,596	6,367	6,078

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.

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

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

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

The risks associated with the instruments held are:

- **Price risk** – the risk that the capital value of Investments may fluctuate due to changes in market prices, whether these changes are caused by factors specific to individual financial instruments or their issuers or are caused by factors affecting similar instruments traded in a market.
- **Interest rate risk** – the risk that movements in interest rates could affect returns and income.
- **Liquidity risk** – the risk that Council will not be able to pay its debts as and when they fall due.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	132	132	(132)	(132)
2018				
Possible impact of a 1% movement in interest rates	132	132	(132)	(132)

(b) Credit risk

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

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

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

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

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivable in the financial statements.

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

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

Credit risk profile

Receivables – rates and annual charges

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

\$ '000	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Gross carrying amount	695	36	—	—	—	731
2018						
Gross carrying amount	21	681	—	—	—	702

Receivables - non-rates and annual charges

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

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

\$ '000	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	3,658	—	—	—	—	3,658
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2018						
Gross carrying amount	6,383	—	29	—	—	6,412
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

(c) Liquidity risk

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

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

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

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

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

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in:		Total cash outflows	Actual carrying values
				1 - 5 Years	> 5 Years		
2019							
Trade/other payables	0.00%	277	3,039	–	–	3,316	3,316
Loans and advances	5.48%	–	552	1,463	1,406	3,421	2,505
Total financial liabilities		277	3,591	1,463	1,406	6,737	5,821
2018							
Trade/other payables	0.00%	401	2,438	–	–	2,839	2,839
Loans and advances	5.40%	–	391	1,650	1,772	3,813	2,757
Total financial liabilities		401	2,829	1,650	1,772	6,652	5,596

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Material budget variations

Council's original financial budget for 18/19 was adopted by the Council on 11/06/2019 and is unaudited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance -----	
REVENUES				
User charges and fees	6,482	9,806	3,324	51% F
Level of RMS works higher than anticipated.				
Interest and investment revenue	354	288	(66)	(19)% U
Interest charges on overdue rates lower than anticipated.				
Other revenues	5	20	15	300% F
Insurance claim recoveries not budgeted for.				
Capital grants and contributions	6,609	8,475	1,866	28% F
Additional funding approved after original estimates adopted.				
EXPENSES				
Borrowing costs	290	146	144	50% F
General fund borrowings deferred to 2019 / 20.				
Materials and contracts	5,177	6,487	(1,310)	(25)% U
Level of RMS works higher than anticipated.				
Net losses from disposal of assets	(69)	2,927	(2,996)	4,342% U
Council does not budget for disposal of infrastructure assets.				
STATEMENT OF CASH FLOWS				
Net cash provided from (used in) operating activities	14,138	22,266	8,128	57% F
Level of RMS works higher than anticipated. Advance payment of Financial Assistance grant not budgeted for.				
Net cash provided from (used in) investing activities	(17,141)	(22,037)	(4,896)	29% U
Actual expenditure on capital works includes revoted projects from prior year.				
Net cash provided from (used in) financing activities	(686)	(252)	434	(63)% F
General fund borrowings deferred to 2019 / 20.				

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement

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

– Infrastructure, property, plant and equipment

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

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

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

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

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

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

2019	Notes	Fair value measurement hierarchy				Total
		Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv-able inputs	
Recurring fair value measurements						
Infrastructure, property, plant and equipment	9(a)					
Plant & Equipment		30/06/19	—	—	6,606	6,606
Office Equipment		30/06/19	—	—	122	122
Furniture & Fittings		30/06/19	—	—	8	8
Land Operational		30/06/18	—	—	4,392	4,392
Land Community		30/06/18	—	—	1,603	1,603
Land Crown		30/06/18	—	—	1,442	1,442
Land under Roads		30/06/16	—	—	1,746	1,746
Land Improvements		30/06/18	—	—	529	529
Buildings		30/06/18	—	—	15,033	15,033
Other Structures		30/06/18	—	—	3,703	3,703
Roads		30/06/15	—	—	180,007	180,007
Bridges		01/07/18	—	—	121,831	121,831
Footpaths		30/06/15	—	—	3,083	3,083
Earthworks		30/06/15	—	—	16,157	16,157
Stormwater Drainage		30/06/17	—	—	25,298	25,298
Water Supply		30/06/17	—	—	27,336	27,336
Sewerage Network		30/06/17	—	—	28,547	28,547
Swimming Pools		30/06/18	—	—	2,089	2,089
Reinstatement Assets		30/06/19	—	—	44	44
Total infrastructure, property, plant and equipment			—	—	439,576	439,576

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

		Fair value measurement hierarchy				
2018	Notes	Date of latest valuation	Level 1 Quoted prices in active mkts	Level 2 Significant observable inputs	Level 3 Significant unobserv-able inputs	Total
Recurring fair value measurements						
Infrastructure, property, plant and equipment	9(a)					
Plant & Equipment		30/06/18	—	—	6,776	6,776
Office Equipment		30/06/18	—	—	172	172
Furniture & Fittings		30/06/18	—	—	9	9
Land Operational		30/06/18	—	—	4,392	4,392
Land Community		30/06/18	—	—	1,603	1,603
Land Crown		30/06/18	—	—	1,442	1,442
Land under Roads		30/06/16	—	—	1,746	1,746
Land Improvements		30/06/18	—	—	530	530
Buildings		30/06/18	—	—	13,150	13,150
Other Structures		30/06/18	—	—	3,323	3,323
Roads		30/06/15	—	—	171,630	171,630
Bridges		30/06/15	—	—	94,126	94,126
Footpaths		30/06/15	—	—	3,047	3,047
Earthworks		30/06/15	—	—	15,412	15,412
Stormwater Drainage		30/06/17	—	—	24,940	24,940
Water Supply		30/06/17	—	—	27,126	27,126
Sewerage Network		30/06/17	—	—	27,165	27,165
Swimming Pools		30/06/18	—	—	2,086	2,086
Reinstatement Assets		30/06/18	—	—	803	803
Total infrastructure, property, plant and equipment			—	—	399,478	399,478

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

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

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

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

Infrastructure, property, plant and equipment (IPP&E)**Plant & Equipment, Office Equipment and Furniture & Fittings**

Plant & Equipment, Office Equipment and Furniture & Fittings are valued at cost but are disclosed at fair value in the notes. The carrying amount of these assets is assumed to approximate fair value due to the nature of the items. Examples of assets within these classes are as follows:

- Plant and Equipment - Graders, trucks, rollers, tractors and motor vehicles.
- Office Equipment - Computers, servers etc.
- Furniture & Fittings - Chairs & desks etc.

There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Operational & Community Land & Land Improvements

The key unobservable input to the valuation of these classes of assets is the price per square metre. The last valuation was undertaken at 30 June 2018 and was performed by AssetVal Pty Ltd, Director Robert Lee Muller BSc (Hons) MRICS MAPM MAIPM AAPI, Chartered Valuation Surveyor.

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.

There has been no change to the valuation process during the reporting period.

Land Under Roads

Land under roads has been valued using the Englobo method for nearby or adjacent Community Land having regard to the highest and best use for this land.

There has been no change to the valuation process during the reporting period.

Buildings - Non-Specialised & Specialised

Buildings were valued by AssetVal Pty Ltd at 30 June 2018 using the cost approach. 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 inputs such as pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using Level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Other Structures

Other Structures were valued by AssetVal Pty Ltd at 30 June 2018 using the cost approach. The approach estimated the replacement cost for each structure by componentising the structures into significant parts with different useful lives and taking into account a range of factors. While all structures were physically inspected inputs such as pattern of consumption required extensive professional judgement and impacted significantly on the final determination of fair value. As such these assets were classified as having been valued using level 3 valuation inputs.

There has been no change to the valuation process during the reporting period.

Roads & Footpaths (including Bulk Earthworks)

This asset class includes the road formation (bulk earthworks) road pavement and road seal, along with other road assets including kerb and guttering, guardrail and roadside furniture including signs and other traffic management devices. The cost Approach using Level 3 inputs was used to value this asset class. Valuations for this asset class were undertaken in-house based on actual costs and assumptions from Council's Engineering Department. No market based evidence (Level 2) inputs are available therefore Level 3 valuation inputs were used for this asset class.

There has been no change to the valuation process during the reporting period.

Bridges

Bridges were revalued at 1 July 2018 by internal staff valuation. The calculation of unit rates has been based on a series of project construction costs (estimated or actual). For each bridge treatment type a sample of 5 projects was taken which represent a range of bridge sizes and construction types. The costs used in the analysis were based on figures derived from Council 'Work Order' system or from estimates provided by Council's bridge construction supervisor. For both the timber and concrete bridges the total cost and area for each component were used to derive an average unit cost for the component. Some of the other significant inputs considered in the valuation of these assets are remaining useful life, pattern of consumption, dimensions, components and type of road. This asset class is categorised as Level 3 as some of the above mentioned inputs used in the valuation of these assets require significant professional judgement and are therefore unobservable.

There has been no change to the valuation process during the reporting period.

Drainage Infrastructure

Assets within this class comprise pits and pipes.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar could be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value.

There has been no change to the valuation process during the reporting period.

Water Supply

Assets within this class comprise reservoirs, pumping stations and, water pipelines.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. These assets are indexed each year in line with the NSW Reference Rates Manual as published by the Department of Primary Industries - Office of Water.

There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Sewerage Network

Assets within this class comprise treatment works, pumping stations and, sewerage mains.

The 'Cost Approach' estimated the replacement cost for each asset by componentising the assets into significant parts with different useful lives and taking into account a range of factors. While the unit rates based on linear metres of certain diameter pipes and prices per pit or similar may be supported from market evidence (Level 2) other inputs (such as estimates of pattern of consumption, asset condition and useful life) required extensive professional judgement and impacted significantly on the final determination of fair value. These assets are indexed each year in line with the NSW Reference Rates Manual as published by the Department of Primary Industries - Office of Water.

There has been no change to the valuation process during the reporting period.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

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

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

\$ '000	Plant and equipment	Office equipment	Furniture and fittings	Operational land	Community land
2018					
Opening balance	6,498	143	10	3,689	559
Purchases (GBV)	1,918	106	–	–	–
Disposals (WDV)	(529)	–	–	–	–
Depreciation and impairment	(1,111)	(77)	(1)	–	–
FV gains – other comprehensive income	–	–	–	703	1,044
Closing balance	6,776	172	9	4,392	1,603
2019					
Opening balance	6,776	172	9	4,392	1,603
Purchases (GBV)	1,227	38	–	–	–
Disposals (WDV)	(246)	–	–	–	–
Depreciation and impairment	(1,151)	(88)	(1)	–	–
Closing balance	6,606	122	8	4,392	1,603

\$ '000	Crown lands	Land under Roads	Land improvements	Buildings non specialised	Building specialised
2018					
Opening balance	1,442	1,746	1,075	2,689	10,377
Purchases (GBV)	–	–	–	–	597
Depreciation and impairment	–	–	(21)	(57)	(306)
FV gains – other comprehensive income	–	–	(524)	(581)	431
Closing balance	1,442	1,746	530	2,051	11,099
2019					
Opening balance	1,442	1,746	530	2,051	11,099
Purchases (GBV)	–	–	–	–	1,637
Depreciation and impairment	–	–	(22)	(61)	(328)
FV gains – other comprehensive income	–	–	22	140	495
Closing balance	1,442	1,746	530	2,130	12,903

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

\$ '000	Other structures	Roads	Bridges	Footpaths	Bulk earthworks
2018					
Opening balance	4,561	157,488	79,419	2,941	14,903
Purchases (GBV)	577	6,864	8,843	95	—
Disposals (WDV)	(6)	(79)	(1,612)	(7)	—
Depreciation and impairment	(437)	(3,459)	(858)	(54)	—
FV gains – other comprehensive income	(1,372)	10,816	8,334	72	509
Closing balance	3,323	171,630	94,126	3,047	15,412
2019					
Opening balance	3,323	171,630	94,126	3,047	15,412
Purchases (GBV)	427	9,892	5,639	—	373
Disposals (WDV)	(5)	(951)	(1,950)	—	(30)
Depreciation and impairment	(195)	(3,782)	(1,130)	(56)	—
FV gains – other comprehensive income	153	3,218	25,146	92	402
Closing balance	3,703	180,007	121,831	3,083	16,157

\$ '000	Stormwater drainage	Water supply network	Sewerage network
2018			
Opening balance	24,553	23,672	27,071
Purchases (GBV)	259	3,153	697
Disposals (WDV)	(191)	(248)	(160)
Depreciation and impairment	(70)	(244)	(184)
FV gains – other comprehensive income	389	793	(259)
Closing balance	24,940	27,126	27,165
2019			
Opening balance	24,940	27,126	27,165
Purchases (GBV)	57	115	748
Disposals (WDV)	(8)	—	(104)
Depreciation and impairment	(70)	(295)	(185)
FV gains – other comprehensive income	379	390	923
Closing balance	25,298	27,336	28,547

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

\$ '000	Swimming pools	Reinstate- ment assets	Total
2018			
Opening balance	2,141	776	365,753
Purchases (GBV)	–	–	23,109
Disposals (WDV)	–	–	(2,832)
Depreciation and impairment	(56)	(68)	(7,003)
FV gains – other comprehensive income	1	–	20,356
Reinstatement Remeasurement	–	95	95
Closing balance	2,086	803	399,478
2019			
Opening balance	2,086	803	399,478
Purchases (GBV)	–	–	20,153
Disposals (WDV)	–	–	(3,294)
Depreciation and impairment	(69)	(30)	(7,463)
FV gains – other comprehensive income	72	–	31,432
Reinstatement Remeasurement	–	(729)	(729)
Closing balance	2,089	44	439,577

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

b. The valuation process for level 3 fair value measurements

Fair Value Hierarchy

AASB 13 Fair Value measurement requires disclosure of fair value measurement by level of input, using the following hierarchy:

- * Level 1 - Quoted prices (unadjusted) 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 - Unobservable inputs for asset or liability.

Fair Value Techniques

The valuation techniques prescribed by AASB 13 can be summarised as:

'Cost Approach': A valuation technique that reflects the amount that would be required to replace the service capacity of an asset (current replacement cost).

'Income Approach': A valuation technique that converts future amounts (cash inflows / outflows) to signal the current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about these future amounts.

'Market Approach': A valuation technique that uses prices and other relevant information, generated by market transactions involving identical or comparable (similar) assets, liabilities or a group of assets and liabilities such as a business.

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).

The Fair Valuation techniques Council has employed while utilising Level 2 and Level 3 inputs are as follows:

Level 2 valuation process for some asset classes where the basis was Cost Approach under Level 2 input, whereby maximising observable inputs and minimising unobservable inputs as below:

- * Quoted prices for similar asset in active markets
- * Current replacement cost concept
- * Purchase price
- * Useful life

Level 3 valuation process for some asset classes where the basis was Cost Approach. The inputs used for this technique were:

- * Pattern of consumption
- * Asset condition
- * Unit rates
- * Useful life

(4) Highest and best use

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 20. Related Party Transactions

(a) Key management personnel

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

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

\$ '000	2019	2018
Compensation:		
Short-term benefits	879	848
Post-employment benefits	68	62
Other long-term benefits	18	4
Termination benefits	—	3
Total	965	917

(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.

Nature of the transaction	Ref	Value of transactions during year	Outstanding balance (incl. loans and commitments)	Terms and conditions	Provisions for impairment of receivables outstanding	Expense recognised for impairment of receivables
\$ '000						
2019						
Employee expenses relating to close family members of KMP	1	83	—		—	—
2018						
Employee expenses relating to close family members of KMP	1	76	—		—	—

1 One (1) close family member of Council's KMP is employed by the Council under the relevant pay award on an arms length basis

Notes to the Financial Statements

for the year ended 30 June 2019

Note 21. Statement of developer contributions

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

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

Summary of contributions and levies

	as at 30/6/2018	Contributions received during the year		Interest earned in year	Expenditure during year	Internal borrowing (to)/from	as at 30/6/2019	
	Opening Balance	Cash	Non-cash				Held as restricted asset	Cumulative internal borrowings due/(payable)
\$ '000								
Roads	85	43	–	2	(43)	–	87	–
Open space	20	1	–	–	(1)	–	20	–
S7.11 contributions – under a plan	105	44	–	2	(44)	–	107	–
Total S7.11 and S7.12 revenue under plans	105	44	–	2	(44)	–	107	–
S64 contributions	51	3	–	1	(2)	–	53	–
Total contributions	156	47	–	3	(46)	–	160	–

S7.11 Contributions – under a plan

CONTRIBUTION PLAN NUMBER 1

Roads	85	43	–	2	(43)	–	87	–
Open space	20	1	–	–	(1)	–	20	–
Total	105	44	–	2	(44)	–	107	–

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Financial result and financial position by fund

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Income Statement by fund			
Income from continuing operations			
Rates and annual charges	8,064	838	1,181
User charges and fees	8,758	782	266
Interest and investment revenue	281	3	4
Other revenues	20	–	–
Grants and contributions provided for operating purposes	6,860	46	–
Grants and contributions provided for capital purposes	8,472	2	1
Total income from continuing operations	32,455	1,671	1,452
Expenses from continuing operations			
Employee benefits and on-costs	7,899	346	275
Borrowing costs	18	66	62
Materials and contracts	4,992	835	660
Depreciation and amortisation	6,983	295	185
Other expenses	1,915	183	72
Net losses from the disposal of assets	2,823	–	104
Total expenses from continuing operations	24,630	1,725	1,358
Operating result from continuing operations	7,825	(54)	94
Net operating result for the year	7,825	(54)	94
Net operating result attributable to each council fund	7,825	(54)	94
Net operating result for the year before grants and contributions provided for capital purposes	(647)	(56)	93

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22. Financial result and financial position by fund (continued)

\$ '000	General ¹ 2019	Water 2019	Sewer 2019
Statement of Financial Position by fund			
ASSETS			
Current assets			
Cash and cash equivalents	12,727	371	113
Receivables	3,858	304	220
Inventories	1,370	–	–
Total current assets	17,955	675	333
Non-current assets			
Infrastructure, property, plant and equipment	386,741	27,503	28,554
Total non-current assets	386,741	27,503	28,554
TOTAL ASSETS	404,696	28,178	28,887
LIABILITIES			
Current liabilities			
Payables	3,076	98	4
Borrowings	29	212	22
Provisions	2,307	102	102
Total current liabilities	5,412	412	128
Non-current liabilities			
Payables	138	–	–
Borrowings	166	1,265	811
Provisions	851	–	–
Total non-current liabilities	1,155	1,265	811
TOTAL LIABILITIES	6,567	1,677	939
Net assets	398,129	26,501	27,948
EQUITY			
Accumulated surplus	142,807	14,726	8,982
Revaluation reserves	255,322	11,775	18,966
Council equity interest	398,129	26,501	27,948
Total equity	398,129	26,501	27,948

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
1. Operating performance ratio						
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	2,317	8.55%	8.98%	17.19%	4.46%	>0.00%
Total continuing operating revenue excluding capital grants and contributions	27,103					
2. Own source operating revenue ratio						
Total continuing operating revenue excluding all grants and contributions ¹	19,991	56.19%	52.00%	49.56%	52.15%	>60.00%
Total continuing operating revenue ¹	35,578					
3. Unrestricted current ratio						
Current assets less all external restrictions	15,879	3.76x	5.63x	6.32x	8.93x	>1.50x
Current liabilities less specific purpose liabilities	4,221					
4. Debt service cover ratio						
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	9,926	24.94x	21.21x	27.88x	19.34x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	398					
5. Rates, annual charges, interest and extra charges outstanding percentage						
Rates, annual and extra charges outstanding	729	6.86%	6.89%	7.21%	7.51%	<10.00%
Rates, annual and extra charges collectible	10,629					
6. Cash expense cover ratio						
Current year's cash and cash equivalents plus all term deposits	13,211	9.73	11.12	17.20	16.20	>3.00
Monthly payments from cash flow of operating and financing activities	1,357	mths	mths	mths	mths	mths

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(b). Statement of performance measures – by fund

\$ '000	General Indicators ³		Water Indicators		Sewer Indicators		Benchmark
	2019	2018	2019	2018	2019	2018	
1. Operating performance ratio							
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	9.07%	11.22%	(3.36)%	(11.61)%	13.58%	(0.22)%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹							
2. Own source operating revenue ratio							
Total continuing operating revenue excluding capital grants and contributions ¹	52.29%	47.37%	95.51%	94.84%	98.14%	98.00%	>60.00%
Total continuing operating revenue ¹							
3. Unrestricted current ratio							
Current assets less all external restrictions	3.76x	5.63x	1.64x	2.18x	2.60x	5.77x	>1.50x
Current liabilities less specific purpose liabilities							
4. Debt service cover ratio							
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	199.50x	116.95x	1.13x	0.51x	5.35x	2.95x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)							
5. Rates, annual charges, interest and extra charges outstanding percentage							
Rates, annual and extra charges outstanding	5.26%	4.99%	14.02%	15.09%	11.79%	13.33%	<10.00%
Rates, annual and extra charges collectible							
6. Cash expense cover ratio							
Current year's cash and cash equivalents plus all term deposits	11.26	12.45	2.73	4.46	1.24	5.55	>3.00
Payments from cash flow of operating and financing activities	mths	mths	mths	mths	mths	mths	mths

(1) - (2) Refer to Notes at Note 23a above.

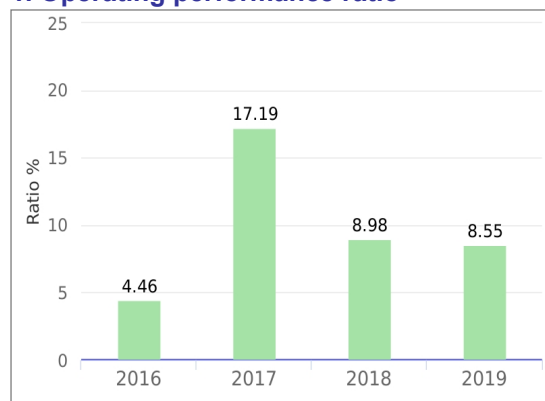
(3) General fund refers to all of Council's activities except for its water and sewer activities which are listed separately.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(c). Statement of performance measures – consolidated results (graphs)

1. Operating performance ratio



Purpose of operating performance ratio

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

Commentary on 2018/19 result

2018/19 ratio 8.55%

Council's Operating Performance Ratio is above the benchmark of 0%. Council is in its fourth year of a special rate variation, approved over a 5 year period. This has allowed Council to take steps to address this ratio, resulting in a significant improvement on previous years.

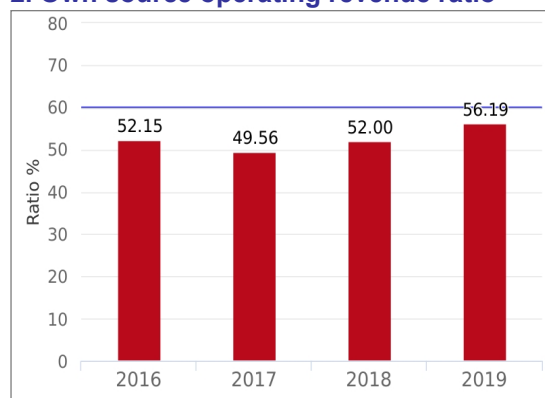
Benchmark: — > 0.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

2. Own source operating revenue ratio



Purpose of own source operating revenue ratio

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

Commentary on 2018/19 result

2018/19 ratio 56.19%

This ratio can fluctuate dramatically each year depending on the level of grant funding. Culmaran creek road funding of \$4.1 million and advance payment of financial assistance grants of \$2.3 million have impacted this ratio.

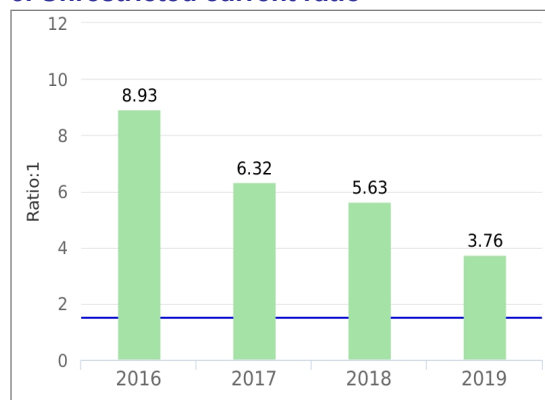
Benchmark: — > 60.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

3. Unrestricted current ratio



Purpose of unrestricted current ratio

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

Commentary on 2018/19 result

2018/19 ratio 3.76x

Council has adequate unrestricted cash and internal reserves to satisfy its current obligations and has adequate levels of internally restricted funds to meet identified needs.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

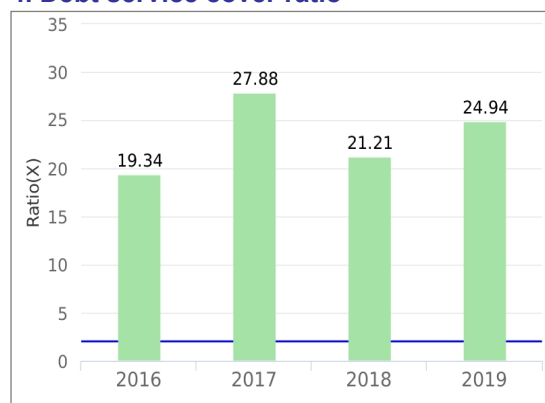
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 23(c). Statement of performance measures – consolidated results (graphs)

4. Debt service cover ratio



Purpose of debt service cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 24.94x

Council's ability to generate sufficient cash to cover its debt payments is sound and is far in excess of NSW Treasury Corporations benchmark.

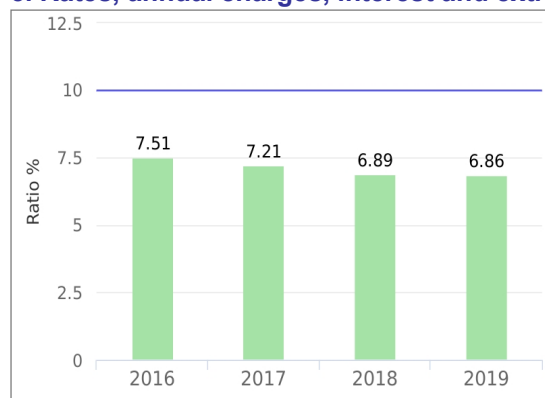
Benchmark: — > 2.00x

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

Ratio achieves benchmark

Ratio is outside benchmark

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



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

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

Commentary on 2018/19 result

2018/19 ratio 6.86%

This ratio is within NSW Treasury Corporations benchmark of <10.00%. Council will continue to monitor and pursue all outstanding debts.

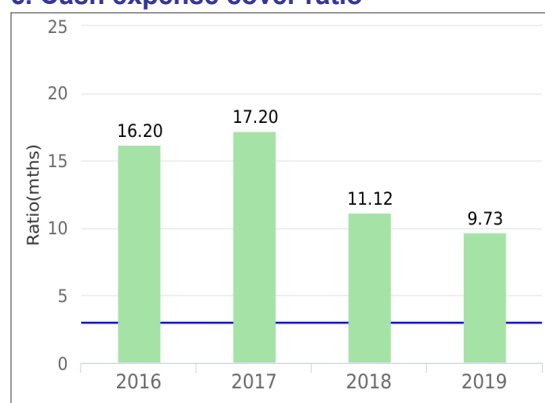
Benchmark: — < 10.00%

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

Ratio achieves benchmark

Ratio is outside benchmark

6. Cash expense cover ratio



Purpose of cash expense cover ratio

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

Commentary on 2018/19 result

2018/19 ratio 9.73 mths

Council's ability to continue paying for its immediate expenses without additional cash inflow is sound and is in excess of NSW Treasury Corporations benchmark.

Benchmark: — > 3.00mths

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

Ratio achieves benchmark

Ratio is outside benchmark



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Kyogle Council

To the Councillors of the Kyogle Council

Opinion

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

In my opinion:

- the Council's accounting records have been kept in accordance with the requirements of the *Local Government Act 1993*, Chapter 13, Part 3, Division 2 (the Division)
- the financial statements:
 - have been presented, in all material respects, in accordance with the requirements of this Division
 - are consistent with the Council's accounting records
 - present fairly, in all material respects, the financial position of the Council as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- all information relevant to the conduct of the audit has been obtained
- no material deficiencies in the accounting records or financial statements have come to light during the audit.

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

Basis for Opinion

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

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

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

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

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

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

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

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the special purpose financial statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting except where the Council will be dissolved or amalgamated by an Act of Parliament, or otherwise cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

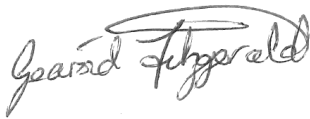
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does not provide assurance:

- that the Council carried out its activities effectively, efficiently and economically
- on the Original Budget information included in the Income Statement, Statement of Cash Flows, and Note 18 Material budget variations
- on the Special Schedules. A separate opinion has been provided on Special Schedule - Permissible income for general rates
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in cursive script, reading "Gearoid Fitzgerald". The signature is written in dark ink and is positioned above the printed name.

Gearoid Fitzgerald

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY



Cr Danielle Mulholland
Mayor
Kyogle Council
PO Box 11
KYOGLE NSW 2474

Contact: Gearoid Fitzgerald
Phone no: 02 9275 7392
Our ref: D1925012/1749

29 October 2019

Dear Mayor

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





I have audited the general purpose financial statements (GPFS) of the Kyogle Council (the Council) for the year ended 30 June 2019 as required by section 415 of the *Local Government Act 1993* (the Act).

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

This Report on the Conduct of the Audit (the Report) for the Council for the year ended 30 June 2019 is issued in accordance with section 417 of the Act. This Report should be read in conjunction with my audit opinion on the GPFS issued under section 417(2) of the Act.

INCOME STATEMENT

Operating result

	2019 \$m	2018 \$m	Variance %
Rates and annual charges revenue	10.1	9.6	 5.2
Grants and contributions revenue	15.4	14.9	 3.4
Operating result for the year	7.9	7.4	 6.8
Net operating result before capital grants and contributions	(0.6)	(0.8)	 25.0

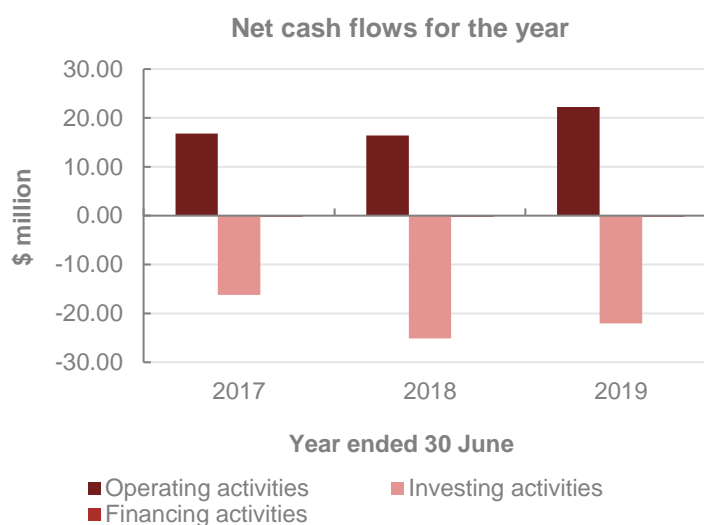
Council's operating result (\$7.9 million including the effect of depreciation and amortisation expense of \$7.5 million) was \$0.5 million higher than the 2017–18 result.

The increase is largely attributable to the following:

- Increase in 'User Fees and Charges' of \$3.4 million, mainly as a result of increased work performed on behalf of Roads & Maritime Services NSW (RMS) – RMS charges increased \$2.8 million.
- Increase in 'Materials and Contracts' of \$2.2 million, mainly as a result of the above noted increased work performed on behalf of RMS.

STATEMENT OF CASH FLOWS

- Net cash provided by operating activities increased by \$5.8 million, mainly due to an increase in specific purpose unexpended grants and RMS charges (as noted above).
- Net cash used in investing activities decreased by \$3.1 million, mainly due to lower purchases of infrastructure, property, plant and equipment.
- Net cash used in financing activities has remained stable.



FINANCIAL POSITION

Cash and investments

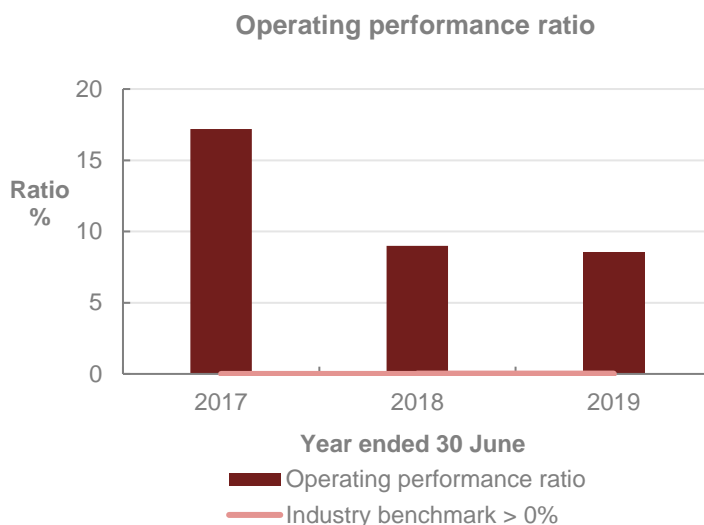
Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	2.4	1.5	<ul style="list-style-type: none"> • The increase in externally restricted cash and investments of \$0.9 million is predominantly due to an increase of \$1.7 million for unexpended specific purpose grants and a range of other decreases including \$0.4 million for sewerage services.
Internal restrictions	7.4	8.1	
Unrestricted	3.4	3.6	
Cash and investments	13.2	13.2	<ul style="list-style-type: none"> • Internally restricted cash and investments has decreased by \$0.7 million. Carry over works and commercial waste decreased by \$1.4 million and \$0.7 million respectively, whilst restrictions for quarries and transport both increased by \$0.4 million and \$0.9 million respectively. • Unrestricted cash and investments has remained fairly consistent with the prior year.

PERFORMANCE

Operating performance ratio

Council's 'operating performance ratio' of 8.55 per cent continues to exceed the industry benchmark and remained fairly consistent with the prior year.

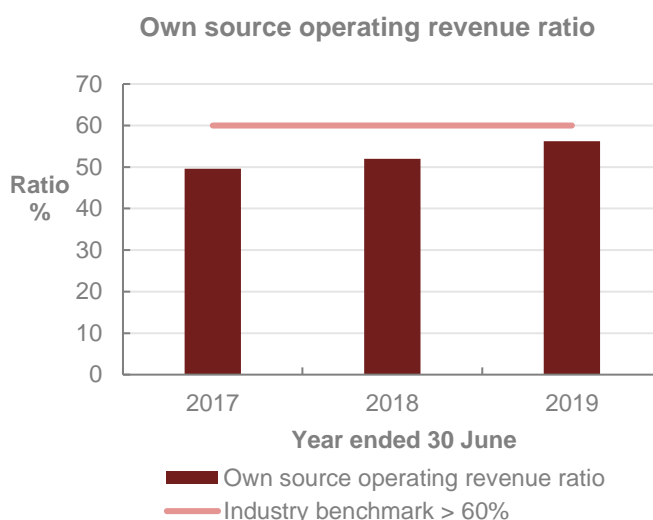
The 'operating performance ratio' measures how well Council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, net losses/gains from disposal of assets and reversal of revaluation decrements). The benchmark set by the former Office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



Own source operating revenue ratio

While Council's 'own source operating revenue ratio' of 56.19 per cent is still below the industry benchmark, it has increased over the last two years mainly due to increased works performed on behalf of RMS.

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

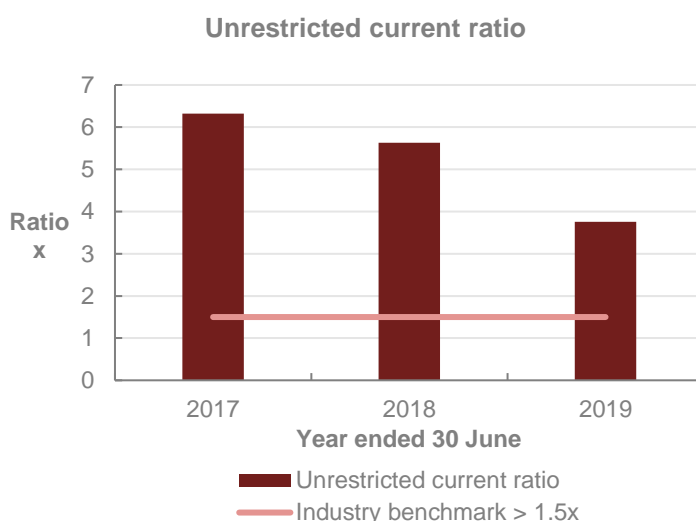


Unrestricted current ratio

Council's 'unrestricted current ratio' exceeds the industry benchmark, however has declined over the last two years. The reduction from the prior year is due to a decrease in unrestricted current assets.

Council has \$3.76 in liquid current assets for every \$1 of current liabilities.

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

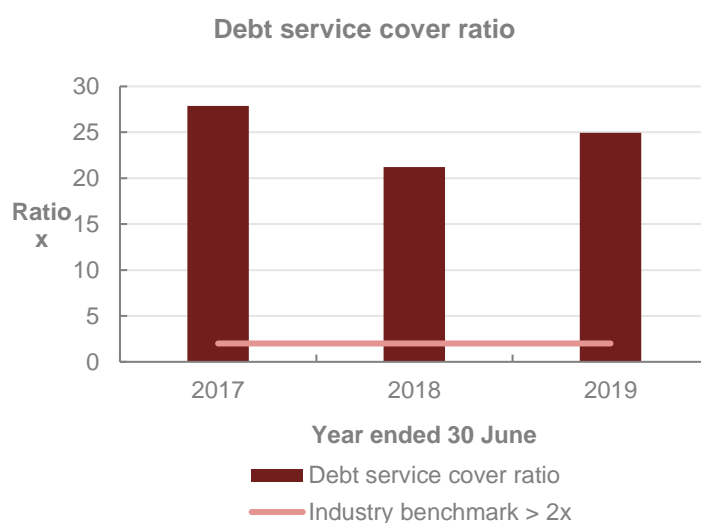


Debt service cover ratio

Council's overall 'debt service cover ratio' of 24.94 times continues to be well above the industry benchmark.

However, the 'debt service cover ratio' for the water fund is still below the industry benchmark.

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

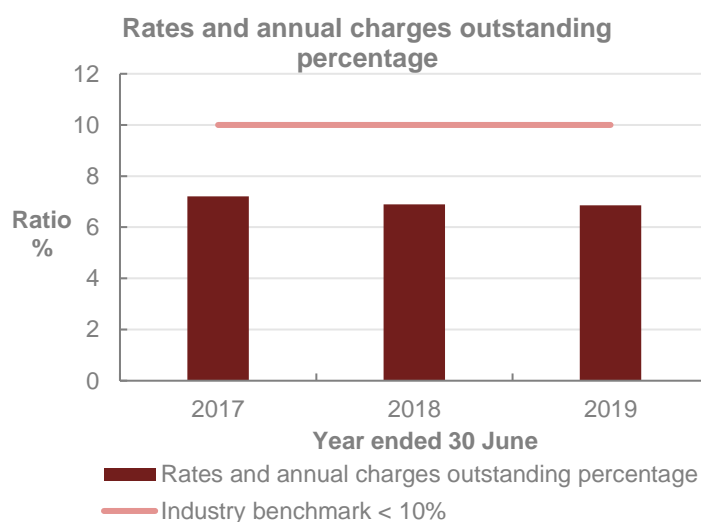


Rates and annual charges outstanding percentage

Council has continued to meet the industry benchmark for the 'rates and annual charges outstanding ratio' as at 30 June 2019.

However, it is noted the 'rates and annual charges outstanding ratio' for both the water and sewer fund are higher than the industry benchmark.

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

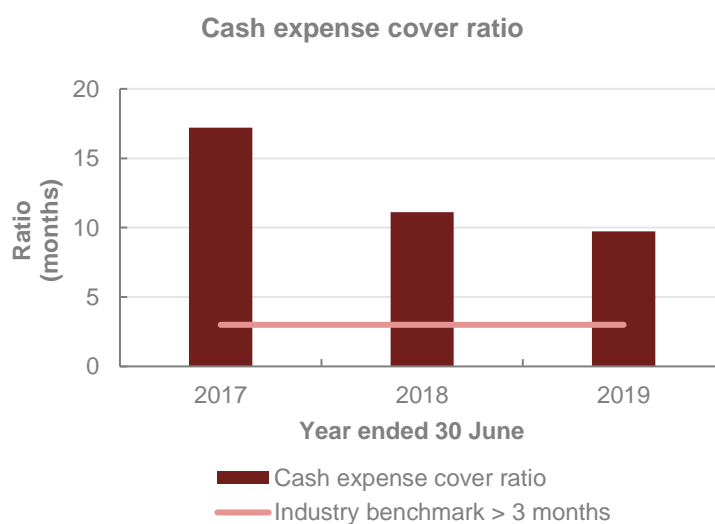


Cash expense cover ratio

Council continues to maintain its 'cash expense cover ratio' well above the industry benchmark, however has declined over the last two years.

Further, it is noted that the 'cash expense cover ratio' for both the water and sewer funds is below the industry benchmark as at 30 June 2019.

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



Infrastructure renewals

Council's infrastructure renewal expenditure in the 2018–19 year was \$13.0 million compared to \$16.2 million in the 2017–18 financial year.

For the past three years, infrastructure renewal expenditure has been well above the rate at which these assets are depreciating.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none">• a simplified model for classifying and measuring financial assets• a new method for calculating impairment• a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 12(b).</p>

Legislative compliance

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

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

The Council's:

- accounting records were maintained in a manner and form that facilitated the preparation and the effective audit of the general purpose financial statements
- staff provided all accounting records and information relevant to the audit.



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

cc: Graham Kennett, General Manager
Andrew Stevens, Chair of the Internal Audit Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment

Kyogle Council

SPECIAL PURPOSE FINANCIAL STATEMENTS for the year ended 30 June 2019



Special Purpose Financial Statements

for the year ended 30 June 2019

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Background

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

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

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

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

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

Special Purpose Financial Statements

for the year ended 30 June 2019

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

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

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

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

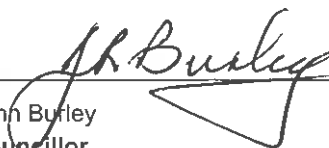
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and
- accord with Council's accounting and other records.
- present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

Signed in accordance with a resolution of Council made on 28 October 2019.



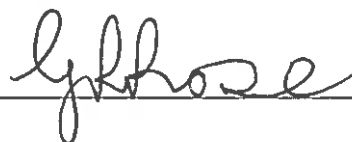
Danielle Mulholland
Mayor
28 October 2019



John Burley
Councillor
28 October 2019



Graham Kennett
General Manager
28 October 2019



Glenn Rose
Responsible Accounting Officer
28 October 2019

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	838	762
User charges	773	711
Fees	9	13
Interest	3	3
Grants and contributions provided for non-capital purposes	46	78
Total income from continuing operations	1,669	1,567
Expenses from continuing operations		
Employee benefits and on-costs	346	322
Borrowing costs	66	74
Materials and contracts	835	715
Depreciation, amortisation and impairment	295	244
Loss on sale of assets	–	248
Other expenses	183	146
Total expenses from continuing operations	1,725	1,749
Surplus (deficit) from continuing operations before capital amounts	(56)	(182)
Grants and contributions provided for capital purposes	2	3
Surplus (deficit) from all operations before tax	(54)	(179)
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	–
SURPLUS (DEFICIT) AFTER TAX	(54)	(179)
Plus opening accumulated surplus	14,780	14,959
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	–	–
– Debt guarantee fees	–	–
– Corporate taxation equivalent	–	–
Less:		
– Tax equivalent dividend paid	–	–
– Surplus dividend paid	–	–
Closing accumulated surplus	14,726	14,780
Return on capital %	0.0%	(0.4)%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	(54)	(179)
Less: capital grants and contributions (excluding developer contributions)	(2)	–
Surplus for dividend calculation purposes	–	–
Potential dividend calculated from surplus	–	–

Income Statement – Sewerage Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	1,181	1,106
User charges	210	203
Liquid trade waste charges	56	55
Interest	4	5
Grants and contributions provided for non-capital purposes	–	26
Total income from continuing operations	1,451	1,395
Expenses from continuing operations		
Employee benefits and on-costs	275	289
Borrowing costs	62	64
Materials and contracts	660	642
Depreciation, amortisation and impairment	185	184
Loss on sale of assets	104	161
Other expenses	72	58
Total expenses from continuing operations	1,358	1,398
Surplus (deficit) from continuing operations before capital amounts	93	(3)
Grants and contributions provided for capital purposes	1	2
Surplus (deficit) from continuing operations after capital amounts	94	(1)
Surplus (deficit) from all operations before tax	94	(1)
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(26)	–
SURPLUS (DEFICIT) AFTER TAX	68	(1)
Plus opening accumulated surplus	8,888	8,889
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	26	–
Closing accumulated surplus	8,982	8,888
Return on capital %	0.5%	0.2%
Subsidy from Council	–	–
Calculation of dividend payable:		
Surplus (deficit) after tax	68	(1)
Less: capital grants and contributions (excluding developer contributions)	(1)	–
Surplus for dividend calculation purposes	67	–
Potential dividend calculated from surplus	34	–

Income Statement – Domestic Waste

for the year ended 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
Income from continuing operations		
Access charges	953	898
Interest	4	5
Grants and contributions provided for non-capital purposes	–	29
Total income from continuing operations	957	932
Expenses from continuing operations		
Materials and contracts	1,093	855
Total expenses from continuing operations	1,093	855
Surplus (deficit) from continuing operations before capital amounts	(136)	77
Grants and contributions provided for capital purposes	–	–
Surplus (deficit) from continuing operations after capital amounts	(136)	77
Surplus (deficit) from all operations before tax	(136)	77
Less: corporate taxation equivalent (27.5%) [based on result before capital]	–	(21)
SURPLUS (DEFICIT) AFTER TAX	(136)	56
Plus opening accumulated surplus	(79)	(156)
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	–	21
Closing accumulated surplus	(215)	(79)
Return on capital %	0.0%	0.0%
Subsidy from Council	136	–

Income Statement – Quarries

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	2,171	613
Total income from continuing operations	2,171	613
Expenses from continuing operations		
Employee benefits and on-costs	179	101
Borrowing costs	6	11
Materials and contracts	1,377	378
Depreciation, amortisation and impairment	37	52
Total expenses from continuing operations	1,599	542
Surplus (deficit) from continuing operations before capital amounts	572	71
Grants and contributions provided for capital purposes	–	–
Surplus (deficit) from continuing operations after capital amounts	572	71
Surplus (deficit) from all operations before tax	572	71
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(157)	(20)
SURPLUS (DEFICIT) AFTER TAX	415	51
Plus opening accumulated surplus	330	259
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	157	20
Less:		
– Dividend paid	(60)	–
Closing accumulated surplus	842	330
Return on capital %	135.4%	17.5%
Subsidy from Council	–	–

Income Statement – Transport

for the year ended 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
Income from continuing operations		
User charges	6,677	3,902
Total income from continuing operations	6,677	3,902
Expenses from continuing operations		
Employee benefits and on-costs	644	515
Materials and contracts	5,342	3,159
Total expenses from continuing operations	5,986	3,674
Surplus (deficit) from continuing operations before capital amounts	691	228
Grants and contributions provided for capital purposes	–	–
Surplus (deficit) from continuing operations after capital amounts	691	228
Surplus (deficit) from all operations before tax	691	228
Less: corporate taxation equivalent (27.5%) [based on result before capital]	(190)	(63)
SURPLUS (DEFICIT) AFTER TAX	501	165
Plus opening accumulated surplus	1,815	2,287
Plus adjustments for amounts unpaid:		
– Corporate taxation equivalent	190	63
Less:		
– Dividend paid	(700)	(700)
Closing accumulated surplus	1,806	1,815
Return on capital %	0.0%	0.0%
Subsidy from Council	–	–

Statement of Financial Position – Water Supply Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	371	539
Receivables	304	320
Total current assets	675	859
Non-current assets		
Infrastructure, property, plant and equipment	27,503	27,177
Total non-current assets	27,503	27,177
TOTAL ASSETS	28,178	28,036
LIABILITIES		
Current liabilities		
Payables	98	102
Borrowings	212	203
Provisions	102	89
Total current liabilities	412	394
Non-current liabilities		
Borrowings	1,265	1,477
Total non-current liabilities	1,265	1,477
TOTAL LIABILITIES	1,677	1,871
NET ASSETS	26,501	26,165
EQUITY		
Accumulated surplus	14,726	14,780
Revaluation reserves	11,775	11,385
TOTAL EQUITY	26,501	26,165

Statement of Financial Position – Sewerage Business Activity

as at 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	113	495
Receivables	220	219
Total current assets	333	714
Non-current assets		
Infrastructure, property, plant and equipment	28,554	27,165
Total non-current assets	28,554	27,165
TOTAL ASSETS	28,887	27,879
LIABILITIES		
Current liabilities		
Payables	4	5
Borrowings	22	21
Provisions	102	89
Total current liabilities	128	115
Non-current liabilities		
Borrowings	811	833
Total non-current liabilities	811	833
TOTAL LIABILITIES	939	948
NET ASSETS	27,948	26,931
EQUITY		
Accumulated surplus	8,982	8,888
Revaluation reserves	18,966	18,043
TOTAL EQUITY	27,948	26,931

Statement of Financial Position – Domestic Waste

as at 30 June 2019

\$ '000	2019 Category 2	2018 Category 2
ASSETS		
Current assets		
Receivables	152	146
Total current assets	152	146
TOTAL ASSETS	152	146
LIABILITIES		
Current liabilities		
Bank overdraft	367	225
Total current liabilities	367	225
TOTAL LIABILITIES	367	225
NET ASSETS	(215)	(79)
EQUITY		
Accumulated surplus	(215)	(79)
<u>TOTAL EQUITY</u>	<u>(215)</u>	<u>(79)</u>

Statement of Financial Position – Quarries

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	1,052	662
Inventories	396	231
Total current assets	1,448	893
Non-current assets		
Infrastructure, property, plant and equipment	427	468
Total non-current assets	427	468
TOTAL ASSETS	1,875	1,361
LIABILITIES		
Non-current liabilities		
Provisions	576	579
Total non-current liabilities	576	579
TOTAL LIABILITIES	576	579
NET ASSETS	1,299	782
EQUITY		
Accumulated surplus	842	330
Revaluation reserves	457	452
<u>TOTAL EQUITY</u>	<u>1,299</u>	<u>782</u>

Statement of Financial Position – Transport

as at 30 June 2019

\$ '000	2019 Category 1	2018 Category 1
ASSETS		
Current assets		
Cash and cash equivalents	965	114
Receivables	841	1,701
Total current assets	1,806	1,815
TOTAL ASSETS	1,806	1,815
NET ASSETS	1,806	1,815
EQUITY		
Accumulated surplus	1,806	1,815
<u>TOTAL EQUITY</u>	<u>1,806</u>	<u>1,815</u>

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

Note 1. Significant Accounting Policies

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

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

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

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

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

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

National Competition Policy

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

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

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

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

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

Declared business activities

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

Category 1

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

a. Transport

Contract Road Construction and Maintenance

b. Quarries

Quarrying Operations

Category 2

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

a. Water

Water Supply

b. Sewer

Sewerage Services

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

Note 1. Significant Accounting Policies (continued)

c. Domestic Waste

Domestic Waste Management

Monetary amounts

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

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 27.5%

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

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

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

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

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

Income tax

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

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

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

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

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

The rate applied of 27.5% is the equivalent company tax rate prevalent at reporting date. No adjustments have been made for variations that have occurred during the year.

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

Note 1. Significant Accounting Policies (continued)

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:

Operating result before capital income + interest expense

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

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

(iv) Dividends

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT

Report on the special purpose financial statements

Kyogle Council

To the Councillors of the Kyogle Council

Opinion

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

The declared business activities of the Council are:

- Water supply
- Sewerage
- Domestic waste
- Quarries
- Transport.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activities as at 30 June 2019, and its financial performance for the year then ended, in accordance with the Australian Accounting Standards described in Note 1 and the Local Government Code of Accounting Practice and Financial Reporting – update number 27 (LG Code).

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

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

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements and Special Schedules (the Schedules).

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

In preparing the financial statements, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in cursive script, reading "Gearoid Fitzgerald". The signature is written in dark ink and is positioned above the printed name.

Gearoid Fitzgerald

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY

Kyogle Council

SPECIAL SCHEDULES
for the year ended 30 June 2019



Special Schedules

for the year ended 30 June 2019

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Permissible income for general rates

\$ '000		Calculation 2019/20	Calculation 2018/19
Notional general income calculation ¹			
Last year notional general income yield	a	6,923	6,559
Plus or minus adjustments ²	b	15	34
Notional general income	c = a + b	6,938	6,593
Permissible income calculation			
Special variation percentage ³	d	5.44%	5.44%
Plus special variation amount	$h = d \times (c + g)$	377	359
Sub-total	$k = (c + g + h + i + j)$	7,315	6,952
Plus (or minus) last year's carry forward total	l	25	(4)
Sub-total	$n = (l + m)$	25	(4)
Total permissible income	$o = k + n$	7,340	6,948
Less notional general income yield	p	7,322	6,923
Catch-up or (excess) result	$q = o - p$	18	25
Carry forward to next year ⁶	$t = q + r + s$	18	25

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



INDEPENDENT AUDITOR'S REPORT

Special Schedule - Permissible income for general rates

Kyogle Council

To the Councillors of Kyogle Council

Opinion

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

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

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

Basis for Opinion

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

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

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

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

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

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

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

Emphasis of Matter - Basis of Accounting

Without modifying my opinion, I draw attention to the special purpose framework used to prepare the Schedule. The Schedule has been prepared for the purpose of fulfilling the Council's reporting obligations under the LG Code. As a result, the Schedule may not be suitable for another purpose.

Other Information

The Council's annual report for the year ended 30 June 2019 includes other information in addition to the Schedule and my Independent Auditor's Report thereon. The Councillors are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the general purpose financial statements, special purpose financial statements and Special Schedule 'Report on infrastructure assets as at 30 June 2019'.

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

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Schedule

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

In preparing the Schedule, the Councillors are responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless it is not appropriate to do so.

Auditor's Responsibilities for the Audit of the Schedule

My objectives are to:

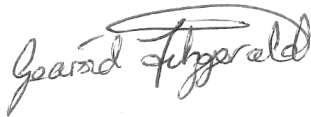
- obtain reasonable assurance whether the Schedule as a whole is free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, reading "Gearoid Fitzgerald". The signature is written in a cursive style with a large, sweeping initial 'G'.

Gearoid Fitzgerald

Delegate of the Auditor-General for New South Wales

29 October 2019
SYDNEY

Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
Buildings	Buildings	454	454	96	167	15,033	29,603	18.0%	61.8%	18.4%	1.8%	0.0%
	Sub-total	454	454	96	167	15,033	29,603	18.0%	61.8%	18.4%	1.8%	0.0%
Other structures	Other structures	36	36	119	89	3,703	6,706	36.4%	34.3%	28.6%	0.6%	0.0%
	Sub-total	36	36	119	89	3,703	6,706	36.4%	34.3%	28.6%	0.6%	0.1%
Roads	Sealed roads	1,253	1,253	1,710	1,929	140,823	185,332	45.2%	43.1%	10.8%	0.7%	0.2%
	Unsealed roads	1,576	1,576	1,801	1,482	39,184	63,472	20.1%	39.5%	37.2%	2.8%	0.5%
	Bridges	6,690	6,690	553	654	121,830	166,406	50.7%	22.0%	22.3%	5.0%	0.0%
	Footpaths	28	28	90	81	3,084	3,771	70.1%	18.1%	11.0%	0.9%	0.0%
	Bulk earthworks	—	—	—	—	16,157	16,157	100.0%	0.0%	0.0%	0.0%	0.0%
	Sub-total	9,547	9,547	4,154	4,146	321,078	435,138	45.9%	32.7%	18.7%	2.6%	0.1%
Water supply network	Water supply network	37	37	271	497	27,336	32,633	61.9%	14.2%	23.8%	0.2%	0.0%
	Sub-total	37	37	271	497	27,336	32,633	61.9%	14.2%	23.8%	0.2%	(0.1%)
Sewerage network	Sewerage network	1,148	1,148	208	354	28,547	33,777	64.5%	13.7%	16.5%	3.7%	1.5%
	Sub-total	1,148	1,148	208	354	28,547	33,777	64.5%	13.7%	16.5%	3.7%	1.6%
Stormwater drainage	Stormwater drainage	423	423	46	59	25,298	28,544	95.3%	0.0%	2.7%	0.7%	1.3%
	Sub-total	423	423	46	59	25,298	28,544	95.3%	0.0%	2.7%	0.7%	1.3%
Open space / recreational assets	Swimming pools	—	—	60	101	2,089	5,502	0.0%	19.8%	80.2%	0.0%	0.0%
	Sub-total	—	—	60	101	2,089	5,502	0.0%	19.8%	80.2%	0.0%	0.0%
TOTAL - ALL ASSETS		11,645	11,645	4,954	5,413	423,084	571,903	48.4%	30.3%	18.7%	2.4%	0.2%

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

Infrastructure asset condition assessment 'key'

- 1 **Excellent/very good** No work required (normal maintenance)
2 **Good** Only minor maintenance work required
3 **Satisfactory** Maintenance work required

- 4 **Poor** Renewal required
5 **Very poor** Urgent renewal/upgrading required

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	2018	Prior periods		Benchmark
				2017	2016	
Infrastructure asset performance indicators (consolidated) *						
Buildings and infrastructure renewals ratio ¹						
Asset renewals ²	13,017					
Depreciation, amortisation and impairment	6,171	210.94%	318.22%	281.82%	105.04%	>=100.00%
Infrastructure backlog ratio ¹						
Estimated cost to bring assets to a satisfactory standard	11,645					
Net carrying amount of infrastructure assets	406,927	2.86%	4.30%	10.73%	12.17%	<2.00%
Asset maintenance ratio						
Actual asset maintenance	5,413					
Required asset maintenance	4,954	109.27%	95.81%	100.47%	103.02%	>100.00%
Cost to bring assets to agreed service level						
Estimated cost to bring assets to an agreed service level set by Council	11,645	2.04%	3.05%	7.23%	—	
Gross replacement cost	571,903					

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

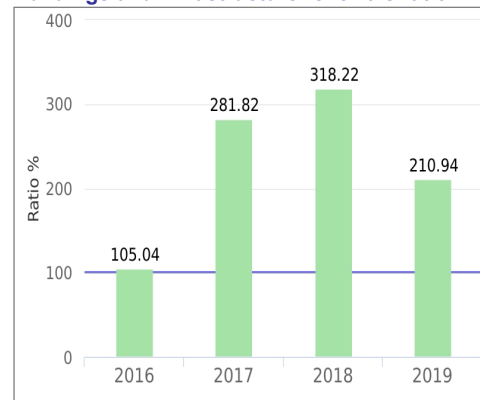
(1) Excludes Work In Progress (WIP)

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

Buildings and infrastructure renewals ratio



Infrastructure renewals ratio

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

Commentary on result

18/19 ratio 210.94%

Council's Infrastructure Renewals Ratio has improved significantly. This has been due to the approval of a special rate variation, along with the development of strategies & actions to improve the long term management of Council's infrastructure assets.

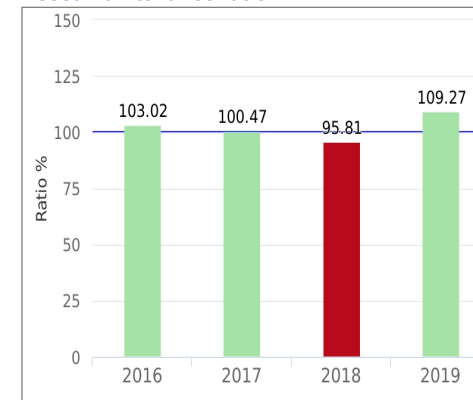
Benchmark: — $\geq 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Asset maintenance ratio



Asset maintenance ratio

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

Commentary on result

18/19 ratio 109.27%

Council acknowledges it's Asset Maintenance Ratio is below Tcorp's benchmark. Council is continually focusing on asset expenditure but like all other NSW council's faces a large impost associated with asset backlogs & maintenance. Council will continue to focus on this area of expenditure.

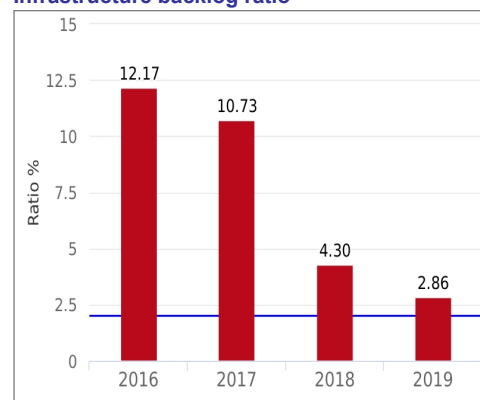
Benchmark: — $> 100.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Infrastructure backlog ratio



Infrastructure backlog ratio

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

Commentary on result

18/19 ratio 2.86%

Council acknowledges it's Infrastructure Backlog Ratio is above Tcorp's benchmark. Council is continually focusing on asset expenditure but like all other NSW council's faces a large impost associated with asset backlogs & maintenance. Council will continue to focus on this area of expenditure.

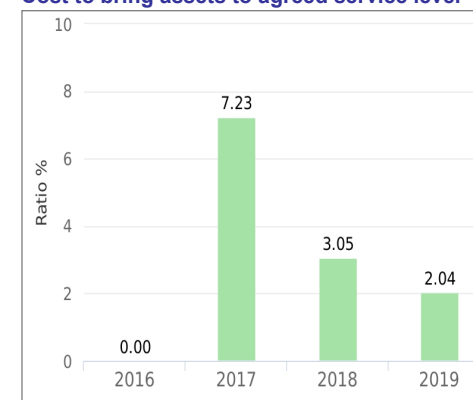
Benchmark: — $< 2.00\%$

Ratio achieves benchmark

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

Ratio is outside benchmark

Cost to bring assets to agreed service level



Cost to bring assets to agreed service level

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

Commentary on result

18/19 ratio 2.04%

Council is continually focused on asset expenditure but like all other NSW council's faces a large impost associated with asset backlogs & maintenance. Council will continue to focus on this area of expenditure.

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	General fund		Water fund		Sewer fund		Benchmark
	2019	2018	2019	2018	2019	2018	
Infrastructure asset performance indicators (by fund)							
Buildings and infrastructure renewals ratio ¹							
Asset renewals ²							
Depreciation, amortisation and impairment	215.88%	305.51%	17.29%	548.36%	367.57%	378.80%	>=100.00%
Infrastructure backlog ratio ¹							
Estimated cost to bring assets to a satisfactory standard							
Net carrying amount of infrastructure assets	2.85%	4.38%	0.14%	0.13%	4.02%	7.51%	<2.00%
Asset maintenance ratio							
Actual asset maintenance							
Required asset maintenance	101.94%	88.59%	183.39%	146.82%	170.19%	190.24%	>100.00%
Cost to bring assets to agreed service level							
Estimated cost to bring assets to an agreed service level set by Council							
Gross replacement cost	2.07%	3.04%	0.11%	0.11%	3.40%	6.15%	

(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.