

Riverina Water County Council

GENERAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

**"to provide our community with safe reliable
water at the lowest sustainable cost"**



General Purpose Financial Statements

for the year ended 30 June 2019

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Overview

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

91 Hammond Avenue
Wagga Wagga NSW 2650

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.rwcc.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:

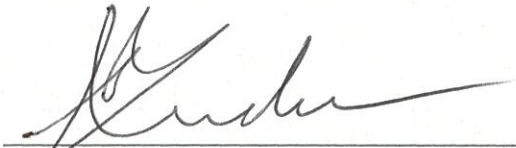
- the *Local Government Act 1993* (NSW) (as amended) and the regulations made thereunder,
- the Australian Accounting Standards and professional pronouncements, and
- the *Local Government Code of Accounting Practice and Financial Reporting*.

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

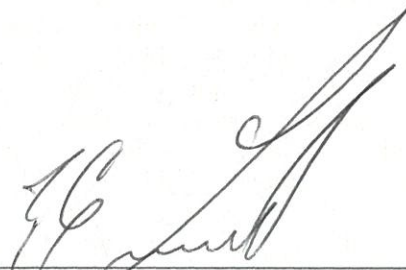
- present fairly the Council's operating result and financial position for the year
- accord with Council's accounting and other records.

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

Signed in accordance with a resolution of Council made on 21 August 2019.



Clr G Verdon
Chairperson



Clr P Funnell
Councillor



Mr A Crakanthorp
General Manager



Ms E Tonacia
Responsible Accounting Officer

Income Statement

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018 ¹
Income from continuing operations				
<u>Revenue:</u>				
5,085	Rates and annual charges	3a	5,551	5,471
24,693	User charges and fees	3b	25,994	22,877
200	Interest and investment revenue	3c	691	595
236	Other revenues	3d	662	281
210	Grants and contributions provided for operating purposes	3e, 3f	338	402
3,803	Grants and contributions provided for capital purposes	3e, 3f	3,013	3,319
<u>Other income:</u>				
—	Net gains from the disposal of assets	5	73	—
—	Reversal of revaluation decrements / impairment of IPP&E previously expensed	4d	—	25
34,227	Total income from continuing operations		36,322	32,970
Expenses from continuing operations				
8,158	Employee benefits and on-costs	4a	8,972	7,942
582	Borrowing costs	4b	570	653
3,841	Materials and contracts	4c	2,580	2,202
6,100	Depreciation and amortisation	4d	6,216	6,066
4,231	Other expenses	4e	4,515	4,389
—	Net losses from the disposal of assets	5	—	8
22,912	Total expenses from continuing operations		22,853	21,260
11,315	Operating result from continuing operations		13,469	11,710
11,315	Net operating result for the year		13,469	11,710
11,315	Net operating result attributable to council		13,469	11,710
7,512	Net operating result for the year before grants and contributions provided for capital purposes		10,456	8,391

⁽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)		13,469	11,710
Other comprehensive income:			
Amounts which will not be reclassified subsequently to the operating result			
Gain (loss) on revaluation of IPP&E	9	4,454	5,835
Gain (loss) on revaluation of intangible assets		3,302	600
Total items which will not be reclassified subsequently to the operating result		7,756	6,435
Total other comprehensive income for the year		7,756	6,435
Total comprehensive income for the year		21,225	18,145
 Total comprehensive income attributable to Council		 21,225	 18,145

(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)	13,184	19,135
Investments	6(b)	15,000	7,000
Receivables	7	4,789	3,576
Inventories	8	2,572	2,334
Total current assets		35,545	32,045
Non-current assets			
Infrastructure, property, plant and equipment	9	360,134	346,174
Intangible assets	10	7,602	4,300
Total non-current assets		367,736	350,474
TOTAL ASSETS		403,281	382,519
LIABILITIES			
Current liabilities			
Payables	11	1,685	1,018
Income received in advance	11	445	462
Borrowings	11	1,761	1,675
Provisions	12	4,268	3,713
Total current liabilities		8,159	6,868
Non-current liabilities			
Borrowings	11	7,258	9,012
Total non-current liabilities		7,258	9,012
TOTAL LIABILITIES		15,417	15,880
Net assets		387,864	366,639
EQUITY			
Accumulated surplus	13a	135,378	121,909
Revaluation reserves	13a	252,486	244,730
Council equity interest		387,864	366,639
Total equity		387,864	366,639

(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		121,909	244,730	366,639	110,199	238,295	348,494
Net operating result for the year		13,469	–	13,469	11,710	–	11,710
Other comprehensive income							
– Gain (loss) on revaluation of IPP&E	9	–	4,454	4,454	–	5,835	5,835
– Gain (loss) on revaluation of intangible assets		–	3,302	3,302	–	600	600
Other comprehensive income		–	7,756	7,756	–	6,435	6,435
Total comprehensive income		13,469	7,756	21,225	11,710	6,435	18,145
Equity – balance at end of the reporting period		135,378	252,486	387,864	121,909	244,730	366,639

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

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

Statement of Cash Flows

for the year ended 30 June 2019

Original unaudited budget 2019	\$ '000	Notes	Actual 2019	Actual 2018
Cash flows from operating activities				
	<u>Receipts</u>			
5,200	Rates and annual charges		5,450	5,287
23,502	User charges and fees		25,708	22,822
300	Investment and interest revenue received		535	559
3,500	Grants and contributions		3,345	3,966
–	Bonds, deposits and retention amounts received		61	–
–	Other		1,883	1,872
	<u>Payments</u>			
(8,048)	Employee benefits and on-costs		(8,386)	(8,138)
(3,700)	Materials and contracts		(2,731)	(2,319)
(570)	Borrowing costs		(570)	(653)
–	Bonds, deposits and retention amounts refunded		–	(13)
(4,100)	Other		(5,929)	(6,108)
16,084	Net cash provided (or used in) operating activities	14b	19,366	17,275
Cash flows from investing activities				
	<u>Receipts</u>			
–	Sale of infrastructure, property, plant and equipment		279	214
	<u>Payments</u>			
(5,000)	Purchase of investment securities		(8,000)	(7,000)
(14,500)	Purchase of infrastructure, property, plant and equipment		(15,928)	(11,025)
(19,500)	Net cash provided (or used in) investing activities		(23,649)	(17,811)
Cash flows from financing activities				
	<u>Payments</u>			
1,668	Repayment of borrowings and advances		(1,668)	(1,575)
1,668	Net cash flow provided (used in) financing activities		(1,668)	(1,575)
(1,748)	Net increase/(decrease) in cash and cash equivalents		(5,951)	(2,111)
7,100	Plus: cash and cash equivalents – beginning of year	14a	19,135	21,246
5,352	Cash and cash equivalents – end of the year	14a	13,184	19,135
Additional Information:				
15,000	plus: Investments on hand – end of year	6(b)	15,000	7,000
20,352	Total cash, cash equivalents and investments		28,184	26,135

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 18 September 2019.

Council has the power to amend and reissue these financial statements.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Australian Accounting Interpretations, the *Local Government Act 1993 (NSW)* and Regulations, and the Local Government Code of Accounting Practice and Financial Reporting. Council is a not for-profit entity for the purpose of preparing these financial statements.

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

Full dollars have been used in Note 20 Related Party Disclosures in relation to the disclosure of specific related party transactions.

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

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

- Income statement
- Statement of cash flows
- Note 18 – Material budget variations

and are clearly marked.

(a) New and amended standards adopted by Council

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

Those newly adopted standards which had an impact on reported position, performance and/or disclosures have been discussed in Note 13.

(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 fair values of intangibles – refer Note 10
- (iii) employee benefit provisions – refer Note 12

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

Significant judgements in applying the council's accounting policies

(i) Impairment of receivables

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

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations issued not yet effective

New accounting standards and interpretations issued but not yet effective

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

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

AASB 16 Leases

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

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

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

Council staff have reviewed all of Council's leasing arrangements over the last 12 months taking into consideration the new lease accounting rules in AASB 16 (applicable from 1/7/19) and can confirm Council currently does not have any material lease arrangements that it will have to recognise on its balance sheet.

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

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 1. Basis of preparation (continued)

The impact of AASB15 is expected to have no significant effects on the accounting treatment of revenue streams currently in place.

AASB 1058 Income of NFP Entities

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

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

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

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

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

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

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

The specific impacts of AASB1058 for Council are expected to be the timing of income recognition. If the conditions of AASB15 are not met, income will be accounted for under AASB1058, being recognised when the cash is received.

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

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

\$ '000	Income from continuing operations		Expenses from continuing operations		Operating result from continuing operations		Grants included in income from continuing operations		Total assets held (current and non-current)	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Functions or activities										
Water supplies	36,322	32,970	22,853	21,260	13,469	11,710	544	602	401,832	382,057
Other	–	–	–	–	–	–	(206)	(200)	1,449	462
Total functions and activities	36,322	32,970	22,853	21,260	13,469	11,710	338	402	403,281	382,519

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:

Water supplies

Comprising the water supply functions servicing the Local Government Areas of Lockhart, Wagga Wagga and parts of the Greater Hume Shire and Federation Council.

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		
Annual charges		
(pursuant to s.496, s.496A, s.496B, s.501 & s.611)		
Water supply services – commercial	491	486
Water supply services – residential	4,854	4,785
Annual charges levied	5,345	5,271
Pensioner subsidies received:		
– Water	206	200
Total annual charges	5,551	5,471
TOTAL RATES AND ANNUAL CHARGES	5,551	5,471

Accounting policy for rates and charges

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

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.

\$ '000	2019	2018
(b) User charges and fees		
Specific user charges		
(per s.502 - specific 'actual use' charges)		
Water supply services – commercial	7,576	7,010
Water supply services – residential	17,218	14,896
Total specific user charges	24,794	21,906
Other user charges and fees		
(i) Fees and charges – statutory and regulatory functions (per s.608)		
Private works – section 67	14	5
Section 603 certificates	154	154
Total fees and charges – statutory/regulatory	168	159
(ii) Fees and charges – other (incl. general user charges (per s.608))		
Leaseback fees – Council vehicles	34	30
Water connection fees	739	585
Standpipe fees	259	197
Total fees and charges – other	1,032	812
TOTAL USER CHARGES AND FEES	25,994	22,877

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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Accounting policy for user charges and fees

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

(c) Interest and investment revenue (including losses)**Interest on financial assets measured at amortised cost**

– Overdue rates and annual charges (incl. special purpose rates)	67	83
– Cash and investments	624	512
<u>TOTAL INTEREST AND INVESTMENT REVENUE</u>	<u>691</u>	<u>595</u>

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

Overdue rates and annual charges (general fund)	67	83
General Council cash and investments	624	512
<u>Total interest and investment revenue</u>	<u>691</u>	<u>595</u>

Accounting policy for interest and investment revenue

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

(d) Other revenues

Sales – general	190	115
Lease rental	35	9
Sales – scrap material	3	4
Sundry Income	281	–
Temporary water allocation	153	153
<u>TOTAL OTHER REVENUE</u>	<u>662</u>	<u>281</u>

Accounting policy for other revenue

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

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

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				
Specific purpose				
LIRS subsidy	318	377	–	–
Diesel and alternative fuels	20	25	–	–
Total specific purpose	338	402	–	–
Total grants	338	402	–	–
Grant revenue is attributable to:				
– Commonwealth funding	226	225	–	–
– State funding	112	177	–	–
	338	402	–	–

\$ '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 64 – water supply contributions		–	–	3,013	3,319
Total developer contributions – cash		–	–	3,013	3,319
Total developer contributions	21	–	–	3,013	3,319
Total contributions		–	–	3,013	3,319
TOTAL GRANTS AND CONTRIBUTIONS		338	402	3,013	3,319

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. 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

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	7,200	7,081
Travel expenses	153	161
Employee leave entitlements (ELE)	1,806	1,233
Superannuation	1,318	1,272
Workers' compensation insurance	248	147
Fringe benefit tax (FBT)	36	19
Payroll tax	484	479
Training costs (other than salaries and wages)	256	242
Uniforms	55	57
Safety Bonus	22	—
Sick leave bonus	151	153
Total employee costs	11,729	10,844
Less: capitalised costs	(2,757)	(2,902)
TOTAL EMPLOYEE COSTS EXPENSED	8,972	7,942
Number of 'full-time equivalent' employees (FTE) at year end	96	96

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.

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

Interest on loans	570	653
Total interest bearing liability costs expensed	570	653

(ii) Other borrowing costs

Fair value adjustments on recognition of advances and deferred debtors	—	—
Total other borrowing costs	—	—

TOTAL BORROWING COSTS EXPENSED	570	653
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Accounting policy for borrowing costs

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(c) Materials and contracts		
Raw materials and consumables	246	257
Contractor and consultancy costs	2,206	1,872
Auditors remuneration ¹	78	55
Strategic Documents	50	–
Legal expenses:		
– Legal expenses: other	–	18
Total materials and contracts	2,580	2,202
TOTAL MATERIALS AND CONTRACTS	2,580	2,202

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

	30	30
Remuneration for audit and other assurance services	30	30
Total Auditor-General remuneration	30	30

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

Other audit and assurance services: Council's Internal Auditor

	48	25
Remuneration for audit and other assurance services	48	25
Total remuneration of non NSW Auditor-General audit firms	48	25
Total Auditor remuneration	78	55

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		515	470
Office equipment		155	157
Infrastructure:			
– Buildings – non-specialised		50	50
– Buildings – specialised		143	143
– Water supply network		5,353	5,246
Total gross depreciation and amortisation costs		6,216	6,066
Total depreciation and amortisation costs		6,216	6,066
Impairment / revaluation decrement of IPP&E			
Intangible assets	10	–	(25)
Total IPP&E impairment / revaluation decrement costs / (reversals) charged to Income Statement		–	(25)
TOTAL DEPRECIATION, AMORTISATION AND IMPAIRMENT / REVALUATION DECREMENT FOR INTANGIBLES AND IPP&E		6,216	6,041

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

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

Impairment of non-financial assets

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 4. Expenses from continuing operations (continued)

\$ '000	2019	2018
(e) Other expenses		
Advertising	146	54
Bank charges	89	123
Computer software charges	203	205
Contributions/levies to other levels of government		
Members expenses – chairperson’s fee	16	10
Members expenses – members fees	86	52
Members expenses (incl. chairperson) – other (excluding fees above)	24	22
Donations, contributions and assistance to other organisations (Section 356)	94	89
Demand management	63	36
Electricity and heating	2,938	2,971
Insurance	157	146
Office expenses (including computer expenses)	204	44
Postage	114	121
Printing and stationery	25	30
Rates and user charges	122	225
Subscriptions and publications	65	84
Telephone and communications	169	177
<u>TOTAL OTHER EXPENSES</u>	<u>4,515</u>	<u>4,389</u>

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		
Proceeds from disposal – plant and equipment		279	214
Less: carrying amount of plant and equipment assets sold/written off		(206)	(222)
Net gain/(loss) on disposal		73	(8)
<u>NET GAIN/(LOSS) ON DISPOSAL OF ASSETS</u>		<u>73</u>	<u>(8)</u>

Accounting policy for disposal of assets

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 6(a). Cash and cash equivalent assets

\$ '000	2019	2018
Cash and cash equivalents		
Cash on hand and at bank	397	1,644
Cash-equivalent assets		
– Short-term deposits	12,787	17,491
Total cash and cash equivalents	13,184	19,135

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.

Note 6(b). Investments

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Investments				
a. 'Held to maturity'	15,000	–	7,000	–
Total Investments	15,000	–	7,000	–
TOTAL CASH ASSETS, CASH EQUIVALENTS AND INVESTMENTS	28,184	–	26,135	–
Financial assets at amortised cost / (held to maturity 2018)				
Long term deposits	15,000	–	7,000	–
Total	15,000	–	7,000	–

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

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

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

Classification

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

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

Financial assets are not reclassified subsequent to their initial recognition.

Accounting policy under AASB 139 – applicable for 2018 comparatives only**Classification**

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Total cash, cash equivalents and investments	28,184	–	26,135	–
attributable to:				
External restrictions	–	–	–	–
Internal restrictions	8,639	–	8,714	–
Unrestricted	19,545	–	17,421	–
	28,184	–	26,135	–

\$ '000	2019	2018
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Details of restrictions

Internal restrictions

Employees leave entitlement	2,134	1,856
Asset replacement	1,505	1,858
Sales fluctuation	5,000	5,000
Total internal restrictions	8,639	8,714
TOTAL RESTRICTIONS	8,639	8,714

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	840	—	739	—
User charges and fees	2,586	—	2,317	—
Accrued revenues				
Accrued interest on investments	229	—	73	—
Other Accrued Income	37	—	—	—
Government grants and subsidies	206	—	200	—
Sundry debtors	891	—	247	—
Total	4,789	—	3,576	—
TOTAL NET RECEIVABLES	4,789	—	3,576	—

Accounting policy for receivables

Recognition and measurement

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

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

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

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.

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 7. Receivables (continued)

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	2,572	–	2,334	–
Total inventories at cost	<u>2,572</u>	<u>–</u>	<u>2,334</u>	<u>–</u>
<u>TOTAL INVENTORIES</u>	<u>2,572</u>	<u>–</u>	<u>2,334</u>	<u>–</u>

Accounting policy for inventories and other assets**Inventory held for distribution**

Inventory held for distribution is held at cost, adjusted where applicable for any loss of service potential.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 9. Infrastructure, property, plant and equipment

\$ '000	as at 30/6/2018			Asset movements during the reporting period						as at 30/6/2019		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Adjustments and transfers	Revaluation increments to equity (ARR)	Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	40,345	–	40,345	6,518	1,628	–	–	–	–	48,491	–	48,491
Plant and equipment	6,140	(3,326)	2,814	1,414	–	(205)	(515)	–	–	6,840	(3,332)	3,508
Office equipment	1,080	(721)	359	–	60	–	(155)	–	–	1,129	(865)	264
Land:												
– Operational land	4,416	–	4,416	–	803	–	–	(701)	–	4,518	–	4,518
– Land Improvements	–	–	–	–	1,267	–	–	701	–	1,968	–	1,968
Infrastructure:												
– Buildings – non-specialised	3,784	(535)	3,249	23	–	–	(50)	–	–	3,807	(585)	3,222
– Buildings – specialised	12,324	(1,072)	11,252	107	–	–	(143)	–	–	12,431	(1,215)	11,216
– Water supply network	427,149	(143,410)	283,739	3,232	875	–	(5,353)	–	4,454	435,710	(148,763)	286,947
Total Infrastructure, property, plant and equipment	495,238	(149,064)	346,174	11,294	4,633	(205)	(6,216)	–	4,454	514,894	(154,760)	360,134

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

\$ '000	as at 30/6/2017			Asset movements during the reporting period						as at 30/6/2018		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Additions renewals ¹	Additions new assets	Carrying value of disposals	Depreciation expense	Revaluation increments to equity (ARR)		Gross carrying amount	Accumulated depreciation	Net carrying amount
Capital work in progress	37,766	–	37,766	–	2,579	–	–	–		40,345	–	40,345
Plant and equipment	5,897	(3,017)	2,880	626	–	(222)	(470)	–		6,140	(3,326)	2,814
Office equipment	950	(579)	371	145	–	–	(157)	–		1,080	(721)	359
Land:												
– Operational land	3,714	–	3,714	702	–	–	–	–		4,416	–	4,416
Infrastructure:												
– Buildings – non-specialised	3,778	(485)	3,293	6	–	–	(50)	–		3,784	(535)	3,249
– Buildings – specialised	12,284	(929)	11,355	40	–	–	(143)	–		12,324	(1,072)	11,252
– Water supply network	414,489	(138,166)	276,323	4,141	2,686	–	(5,246)	5,835		427,149	(143,410)	283,739
Total Infrastructure, property, plant and equipment	478,878	(143,176)	335,702	5,660	5,265	(222)	(6,066)	5,835		495,238	(149,064)	346,174

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

Notes to the Financial Statements

for the year ended 30 June 2019

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

Accounting policy for infrastructure, property, plant and equipment

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

Water network assets are indexed annually between full revaluations in accordance with the latest indices provided in the Rates Reference Manual issued by Department of Industry (DoI) - Water.

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

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

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

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives as follows:

Plant and equipment	Years	Water assets	Years
Office equipment	5 to 10	Reservoirs	80 to 100
Office furniture	10 to 20	Bores	20 to 40
Computer equipment	5	Reticulation pipes: PVC	80
Vehicles	5 to 10	Reticulation pipes: other	25 to 75
Heavy plant/road making equipment	5 to 10	Pumps and telemetry	15 to 20
Other plant and equipment	5 to 15	Buildings	
		Buildings: masonry	50 to 100

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

Notes to the Financial Statements

for the year ended 30 June 2019

Note 10. Intangible assets

\$ '000	2019	2018
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Intangible assets are as follows:

Opening values at 1 July

Gross book value	4,300	3,575
Net book value – opening balance	4,300	3,575

Movements for the year

– Purchases	–	100
– Fair valuation (decrement reversal via Income Statement)	–	25
– Fair valuation (increment to Equity – Asset Revaluation Reserve)	3,302	600

Closing values at 30 June

Gross book value	7,602	4,300
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TOTAL INTANGIBLE ASSETS – NET BOOK VALUE

7,602	4,300
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The net book value of intangible assets represents:

– Water licences	7,602	4,300
	7,602	4,300

Accounting policy for intangible assets**Water Licence Rights**

Costs capitalised include external direct costs associated with the purchase of the licence. These rights are valued each year and any associated impairment or fair revaluation increment are included.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Payables				
Goods and services – operating expenditure	238	–	151	–
Accrued expenses:				
– Salaries and wages	211	–	180	–
– Other expenditure accruals	1,100	–	612	–
Security bonds, deposits and retentions	136	–	75	–
Total payables	1,685	–	1,018	–
Income received in advance				
Payments received in advance	445	–	462	–
Total income received in advance	445	–	462	–
Borrowings				
Loans – secured ¹	1,761	7,258	1,675	9,012
Total borrowings	1,761	7,258	1,675	9,012
<u>TOTAL PAYABLES AND BORROWINGS</u>	<u>3,891</u>	<u>7,258</u>	<u>3,155</u>	<u>9,012</u>

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

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

(a) Payables and borrowings relating to restricted assets

There are no restricted assets (external or internal) applicable to the above payables and borrowings

\$ '000	2019	2018
(b) Current payables and borrowings not anticipated to be settled within the next twelve months		
The following liabilities, even though classified as current, are not expected to be settled in the next 12 months.		
Payables – security bonds, deposits and retentions	136	81
Total payables and borrowings	136	81

Notes to the Financial Statements

for the year ended 30 June 2019

Note 11. Payables and borrowings (continued)

(c) 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	10,687	(1,668)	–	–	–	9,019
TOTAL	10,687	(1,668)	–	–	–	9,019

\$ '000	2019	2018
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(d) Financing arrangements

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

Bank overdraft facilities ¹	250	250
Credit cards/purchase cards	100	100
Market Rate Facility	500	500
Total financing arrangements	850	850

Drawn facilities as at balance date:

– Credit cards/purchase cards	15	14
Total drawn financing arrangements	15	14

Undrawn facilities as at balance date:

– Bank overdraft facilities	250	250
– Credit cards/purchase cards	85	86
– Market Rate Facility	500	500
Total undrawn financing arrangements	835	836

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

Accounting policy for payables and borrowings

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

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

Payables

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

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective-interest method.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired.

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.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions

\$ '000	2019 Current	2019 Non-current	2018 Current	2018 Non-current
Provisions				
Employee benefits				
Annual leave	942	–	895	–
Sick leave	6	–	6	–
Long service leave	3,320	–	2,812	–
Sub-total – aggregate employee benefits	4,268	–	3,713	–
TOTAL PROVISIONS	4,268	–	3,713	–

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

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

Provisions – employees benefits	3,342	2,927
	3,342	2,927

Employee benefits**Short-term obligations**

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

Other long-term employee benefit obligations

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

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

Defined Benefit Superannuation Disclosure

Council participates in an employer sponsored Defined Benefit Superannuation Scheme that is a multi-employer plan.

(a) *Funding arrangements, including methodology to determine rate of contributions and any minimum funding requirements.*

Pooled Employers are required to pay standard employer contributions and additional lump sum contributions to the Fund.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions (continued)

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% of salary
Division D	1.64 times employee contributions

The additional lump sum contributions for each Pooled Employer is a share of the total additional contributions of \$40.0 million per annum for 1 July 2018 for 4 years to 30 June 2021, apportioned according to each employer's share of the accrued liabilities as at 30 June 2018. The 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.

(b) Extent to which Council may be liable to plan the plan for other entities' obligations under the terms and conditions of the multi-employer plan.

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

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

(c) Description of any agreed allocation of a deficit or surplus on:

(i) wind-up of the plan

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

(ii) entity's withdrawal from the plan

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

(d) Further information relating to reasons for accounting for the pooled employer fund as a defined contribution plan:

(i) the fact the plan is a defined benefit plan

Council confirms that the plan is a defined benefit plan.

(ii) why sufficient information is not available to enable Council to account for the plan as a defined benefit plan

1. Assets are not segregated within the sub-group according to the employees of each sponsoring employer;
2. The contribution rates have been the same for all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer; and
3. Benefits for employees of all sponsoring employers are determined according to the same formulae and without regard to the sponsoring employer; and
4. The same actuarial assumptions are currently used in respect of the employees of each sponsoring employer.

Given the factors set out above, each sponsoring employer is exposed to the actuarial risks associated with current and former employees of sponsoring employers and hence shares in the associated gains and losses (to the extent that they are not borne by the members). As such we do not believe that there is sufficient reliable information to allow each sponsoring employer to account for its proportionate share of the defined benefit obligation, sub-group assets and costs associated with the sub-group in the same way as it would for a single employer sponsored defined benefit plan.

(iii) the expected contribution to the plan for the next annual reporting period

The expected contributions by Council to the Fund for the next annual reporting period are \$272,254.32

Notes to the Financial Statements

for the year ended 30 June 2019

Note 12. Provisions (continued)

(iv) information about any deficit or surplus in the plan that may affect the amount of future contributions, including the basis used to determine that deficit or surplus and the implications, if any, for the entity

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

<i>Employer reserves only*</i>	<i>\$M</i>	<i>Asset Coverage</i>
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 key economic long term assumptions used to calculate the present value of accrued benefits are:

Investment Return	5.75% per annum
Salary Inflation (plus promotional increases)	3.5% per annum
Increase in CPI	2.5% per annum

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.

(v) an indication of the level of Council's participation in the plan compared with other participating entities

Council's participation in the Scheme compared with other entities is about 0.28% based on the Council's current level of annual additional contributions against total contributions. The last valuation of the Fund was performed by Mr Richard Boyfield, FIAA on 31 December 2018, relating to the period ending 30 June 2018.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 13. 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. There was no impact caused by the adoption and associated transition disclosures that resulted in any non retrospective application.

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. There was no 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. There was no impact caused by the addition of this standard.

(c) Changes in accounting policies due to adoption of new accounting standards (retrospective)

Changes in accounting policies due to adoption of new accounting accounting standard (retrospective)

During the year, Council adopted a number of new accounting standards. There was no impact caused by the adoption and associated transition disclosures that resulted in any retrospective application.

(d) Changes in accounting estimates

Nature and effect of changes in accounting estimates on current year

There was no impact on the accounting estimates in the current year.

Nature and effect of changes in accounting estimates on future years

There are no foreseeable impacts on the accounting estimates for the future years.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 14. Statement of cash flows - additional information

\$ '000	Notes	2019	2018
(a) Reconciliation of cash assets			
Total cash and cash equivalent assets	6(a)	13,184	19,135
Balance as per the Statement of Cash Flows		13,184	19,135
(b) Reconciliation of net operating result to cash provided from operating activities			
Net operating result from Income Statement		13,469	11,710
Adjust for non-cash items:			
Depreciation and amortisation		6,216	6,066
Net losses/(gains) on disposal of assets		(73)	8
Reversal of prior year IPP&E revaluation decrements / impairment previously costed direct to the P&L		—	(25)
+/- Movement in operating assets and liabilities and other cash items:			
Decrease/(increase) in receivables		(1,213)	11
Decrease/(increase) in inventories		(238)	49
Increase/(decrease) in payables		87	54
Increase/(decrease) in other accrued expenses payable		519	(472)
Increase/(decrease) in other liabilities		44	22
Increase/(decrease) in provision for employee benefits		555	(148)
Net cash provided from/(used in) operating activities from the Statement of Cash Flows		19,366	17,275

Notes to the Financial Statements

for the year ended 30 June 2019

Note 15. Commitments

\$ '000	2019	2018
---------	------	------

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

Water Treatment Plant	38	1,692
Shires Reservoir	–	160
Low Level Reservoir	239	269
Purchase of Vacant Land	123	–
Glenoak Reservoir	1,177	–
Total commitments	1,577	2,121

These expenditures are payable as follows:

Within the next year	1,577	2,121
Total payable	1,577	2,121

Sources for funding of capital commitments:

Unrestricted general funds	1,577	2,121
Total sources of funding	1,577	2,121

Details of capital commitments

Contract for the construction of the Wagga Wagga Water Treatment Plant, project to be finalised during 2019/20 financial year.
 Contract for the construction of the Low Level Reservoir, project to be finalised during 2019/20 financial year.
 Purchase of vacant land for depot facilities, settlement to take place in 2019/20 financial year.
 Contract for the Glenoak Reservoir, project to be finalised in the 2019/20 financial year.

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 makes employer contributions to the defined benefits categories of the Scheme at rates determined by the Scheme's Trustee. Employees also make member contributions to the Fund. As such, assets accumulate in the Fund to meet the member's benefit, as defined in the Trust Deed, as they accrue.

Council has an ongoing obligation to share in the future rights and liabilities of the Scheme. Favourable or unfavourable variations may arise should the financial requirements of the Scheme differ from the assumptions made by the Scheme's actuary in estimating the accrued benefits liability.

(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.

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) Sick Leave Payable on Retirement due to Medical Grounds

At balance date there is a contingent liability for staff who are entitled to a sick leave to be paid out if they were to retire due to medical grounds. This is an unlikely event. Amount totals \$46,050 (2017/18 \$64,337).

Notes to the Financial Statements

for the year ended 30 June 2019

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

ASSETS NOT RECOGNISED

(i) Water Treatment Plant Bank Guarantees

The Council holds bank guarantees totalling \$2.4 million for the contract period from contractors responsible for the construction of the Wagga Wagga Water Treatment Plant.

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.

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

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

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

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

The risks associated with the instruments held are:

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

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

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

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

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

\$ '000	Increase of values/rates		Decrease of values/rates	
	Profit	Equity	Profit	Equity
2019				
Possible impact of a 1% movement in interest rates	282	282	(282)	(282)
2018				
Possible impact of a 1% movement in interest rates	261	261	(261)	(261)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 17. Financial risk management (continued)

(b) Credit risk

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

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

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

Credit risk on 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 value rates which further encourages the payment of debt.

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

Credit risk profile

Receivables – annual charges

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

	Not yet overdue	< 1 year overdue	1 - 2 years overdue	2 - 5 years overdue	> 5 years overdue	Total
2019						
Overdue	607	233	—	—	—	840
2018						
Overdue	556	183	—	—	—	739

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.

	Not yet overdue	0 - 30 days overdue	31 - 60 days overdue	61 - 90 days overdue	> 91 days overdue	Total
2019						
Gross carrying amount	3,403	546	—	—	—	3,949
Expected loss rate (%)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
2018						
Gross carrying amount	2,197	640	—	—	—	2,837
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.

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

\$ '000	Weighted average interest rate	Subject to no maturity	≤ 1 Year	payable in: 1 - 5 Years	> 5 Years	Total cash outflows	Actual carrying values
2019							
Trade/other payables	0.00%	136	1,549	–	–	1,685	1,685
Loans and advances	5.70%	–	2,249	6,811	1,880	10,940	9,019
Total financial liabilities		136	3,798	6,811	1,880	12,625	10,704
2018							
Trade/other payables	0.00%	75	943	–	–	1,018	1,018
Loans and advances	5.69%	–	2,257	8,779	2,161	13,197	10,687
Total financial liabilities		75	3,200	8,779	2,161	14,215	11,705

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 26/06/2018 and is not required to be audited.

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

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

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

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

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance* -----	
REVENUES				
Rates and annual charges	5,085	5,551	466	9% F
User charges and fees	24,693	25,994	1,301	5% F
Interest and investment revenue	200	691	491	246% F
Cash levels are higher than anticipated due to payments for the Water Treatment Plant project being lower than budgeted due to project delays, as well as higher than anticipated water sales. This resulted in increased investment revenue.				
Other revenues	236	662	426	181% F
Higher than budgeted due to a temporary water licence allocation and receipt of liquidated damages from Water Treatment Plant.				
Operating grants and contributions	210	338	128	61% F
Variance due to LIRS subsidy being budgeted as a capital grant rather than operational.				
Capital grants and contributions	3,803	3,013	(790)	(21)% U
Variance due to lower than anticipated developer contributions.				
Net gains from disposal of assets	–	73	73	∞ F
New gains from disposal of assets not included in the budget.				
Reversal of revaluation decrements / impairment of IPP&E previously expensed	–	–	–	∞ F
EXPENSES				
Employee benefits and on-costs	8,158	8,972	(814)	(10)% U
Higher than anticipated employee costs due to differences in staff levels, safety bonus and ELE adjustment.				
Borrowing costs	582	570	12	2% F
Materials and contracts	3,841	2,580	1,261	33% F
Increased focus on capital works projects have diverted expenditure away from operational.				
Depreciation and amortisation	6,100	6,216	(116)	(2)% U
Other expenses	4,231	4,515	(284)	(7)% U
Net losses from disposal of assets	–	–	–	∞ F

Notes to the Financial Statements

for the year ended 30 June 2019

Note 18. Material budget variations (continued)

\$ '000	2019 Budget	2019 Actual	2019 ----- Variance* -----	
STATEMENT OF CASH FLOWS				
Net cash provided from (used in) operating activities	16,084	19,366	3,282	20% F
Net cash provided from (used in) investing activities	(19,500)	(23,649)	(4,149)	21% U
Decreased capital expenditure due to delays in Water Treatment Plant project.				
Net cash provided from (used in) financing activities	1,668	(1,668)	(3,336)	(200)% U
Loans not drawn down due to delay in works on the Water Treatment Plant project.				

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
- Financial assets and liabilities

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

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

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

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

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

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

		Fair value measurement hierarchy			
2019			Level 1	Level 2	Level 3
Recurring fair value measurements	Notes	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobservable inputs
					Total
Financial assets					
High Security Water Licence		30/06/19	–	7,602	–
Total financial assets			–	7,602	–
Infrastructure, property, plant and equipment					
	9				
Water Treatment Plants		30/06/16	–	–	28,127
Ground Water Bores		30/06/16	–	–	6,830
Water Pumping Stations		30/06/16	–	–	7,904
Water Reservoirs		30/06/16	–	–	45,652
Other Water Assets		30/06/16	–	–	1,171
Pipes		30/06/16	–	–	197,293
Buildings		30/06/16	–	–	14,437
Land		30/06/16	–	–	6,486
Plant & Equipment		30/06/16	–	3,507	–
Office Equipment		30/06/16	–	264	–
Total infrastructure, property, plant and equipment			–	3,771	307,900
					311,671

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

		Fair value measurement hierarchy				
2018			Level 1	Level 2	Level 3	
Recurring fair value measurements	Notes	Date of latest valuation	Quoted prices in active mkts	Significant observable inputs	Significant unobserv-able inputs	Total
Financial assets						
High Security Water Licence		30/06/18	—	4,300	—	4,300
Total financial assets			—	4,300	—	4,300
Infrastructure, property, plant and equipment						
	9					
Water Treatment Plants		30/06/16	—	—	28,145	28,145
Ground Water Bores		30/06/16	—	—	6,972	6,972
Water Pumping Stations		30/06/16	—	—	8,193	8,193
Water Reservoirs		30/06/16	—	—	44,898	44,898
Other Water Assets		30/06/16	—	—	937	937
Pipes		30/06/16	—	—	194,594	194,594
Buildings		30/06/16	—	—	14,501	14,501
Land		30/06/16	—	—	4,416	4,416
Plant & Equipment		30/06/16	—	2,814	—	2,814
Office Equipment		30/06/16	—	359	—	359
Total infrastructure, property, plant and equipment			—	3,173	302,656	305,829

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

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

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

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

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

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

Intangible assets

An external valuation is conducted for the High Security Water Licence on an annual basis based on observed market rates for similar licences.

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

Council engages external, independent and qualified valuers to determine fair value of infrastructure and property assets on a regular basis. This was undertaken during 2015/16. Techniques used to derive fair values:

Land: where an active market exists, a market approach has been adopted. For other types of land the cost approach was adopted. Market valuations were determined by comparing recent sales of land with similar characteristics. Cost valuations were obtained by assuming the need to purchase land from an adjoining neighbour, the value could be determined based on known zoning and town planning restrictions, comparing recent sales of similar land.

Buildings: buildings are disaggregated into different components. Observable inputs to the valuation include design and construction, average cost of construction, condition and consumption, supported by inspection and market evidence. Unobservable inputs include pattern of consumption and remaining service potential, which required professional judgement.

Notes to the Financial Statements

for the year ended 30 June 2019

Note 19. Fair Value Measurement (continued)

Infrastructure: assets are componentised into significant parts. Unit rates are based on similar capacity, using market evidence or other inputs that require professional judgement.

Plant and Equipment: valued based on actual historical costs.

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

Refer to Note 9 for the changes in level 3 fair value asset classes (Infrastructure, Property, Plant & Equipment).

(5) 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. Council had transactions with 12 KMP during the reporting period.

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

\$ '000	2019	2018
Compensation:		
Short-term benefits	497	574
Post-employment benefits	37	36
Other long-term benefits	19	18
Total	553	628

(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. supply of water to the residence of KMP) will not be disclosed.

Councillors of Riverina Water County Council are also Councillors for constituent member Councils. Councillors are elected as independent members of Riverina Water County Council's board. Constituent Councils do not hold direct control over Riverina Water County Council and transactions between Councils have not been classified as Related Party transactions.

Council had no other transactions with KMP and their related parties during the reporting period.

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.

	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								
S64 contributions	—	3,014	—	—	(3,014)	—	—	—
Total contributions	—	3,014	—	—	(3,014)	—	—	—

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22(a). Statement of performance measures – consolidated results

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018 2017		Benchmark
1. Operating performance ratio					
Total continuing operating revenue excluding capital grants and contributions less operating expenses ^{1, 2}	10,383	31.24%	28.27%	30.96%	>0.00%
Total continuing operating revenue excluding capital grants and contributions ¹	33,236				
2. Own source operating revenue ratio					
Total continuing operating revenue excluding all grants and contributions ¹	32,692	90.19%	88.10%	90.09%	>60.00%
Total continuing operating revenue ¹	36,249				
3. Unrestricted current ratio					
Current assets less all external restrictions	35,545	9.47x	9.43x	6.77x	>1.50x
Current liabilities less specific purpose liabilities	3,755				
4. Debt service cover ratio					
Operating result before capital excluding interest and depreciation/impairment/amortisation ¹	17,169	7.67x	6.77x	8.97x	>2.00x
Principal repayments (Statement of Cash Flows) plus borrowing costs (Income Statement)	2,238				
5. Rates, annual charges, interest and extra charges outstanding percentage					
Rates, annual and extra charges outstanding	840	13.66%	12.10%	12.41%	<10.00%
Rates, annual and extra charges collectible	6,151				
6. Cash expense cover ratio					
Current year's cash and cash equivalents plus all term deposits	28,184	17.54 mths	16.68 mths	16.00 mths	>3.00 mths
Monthly payments from cash flow of operating and financing activities	1,607				

(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

End of audited financial statements

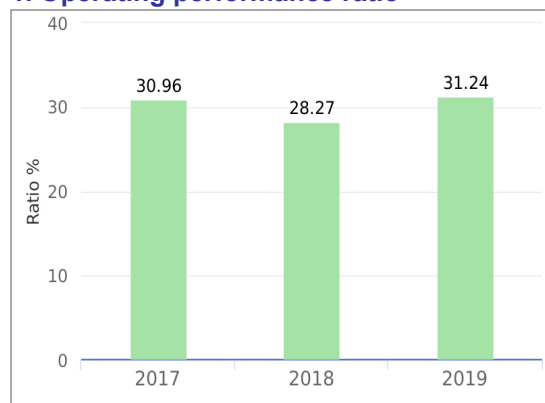
End of audited financial statements

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22(b). 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 31.24%

Extended dry and hot weather over the summer period resulted in higher than anticipated water sales.

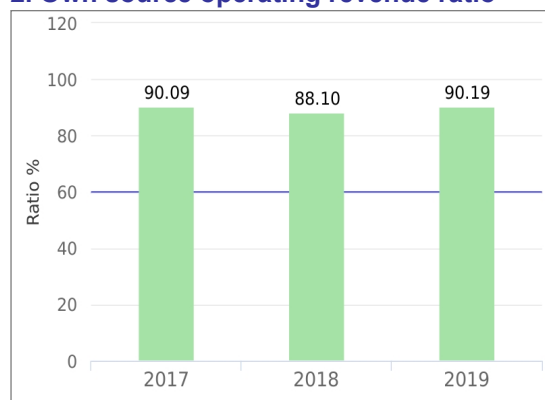
Benchmark: — > 0.00%

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 90.19%

Council primarily relies on water sales income to fund operations, which results in a consistently high ratio.

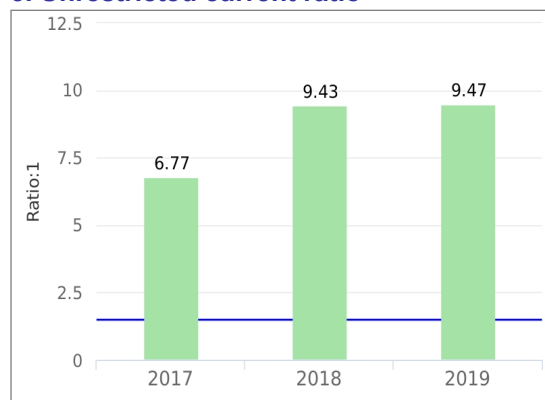
Benchmark: — > 60.00%

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 9.47x

An increase in this ratio for the current year is due to increased cash holdings. This has occurred due to increased water sales.

Benchmark: — > 1.50x

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

Ratio achieves benchmark

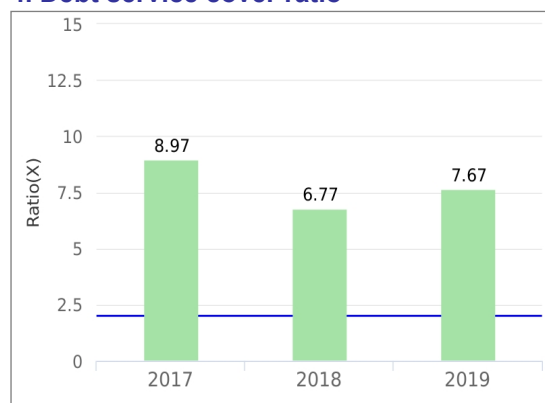
Ratio is outside benchmark

Notes to the Financial Statements

for the year ended 30 June 2019

Note 22(b). 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 7.67x

A larger operating result in 2018/19 has increased this ratio.

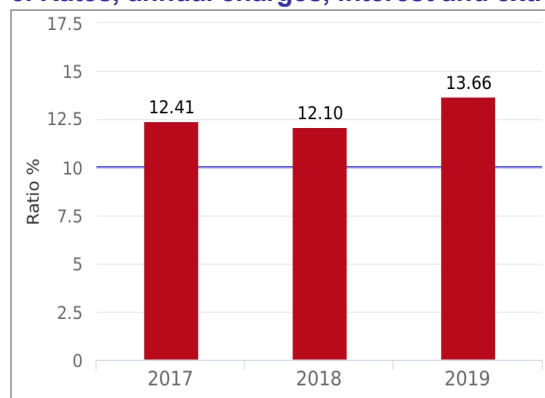
Benchmark: — > 2.00x

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 13.66%

This ratio is consistent over the years due to debt recovery measures in place. The ratio is high compared to benchmark due to a rolling quarterly billing cycle where accounts are raised throughout the quarter. This measure takes into account all accounts regardless of whether they are overdue.

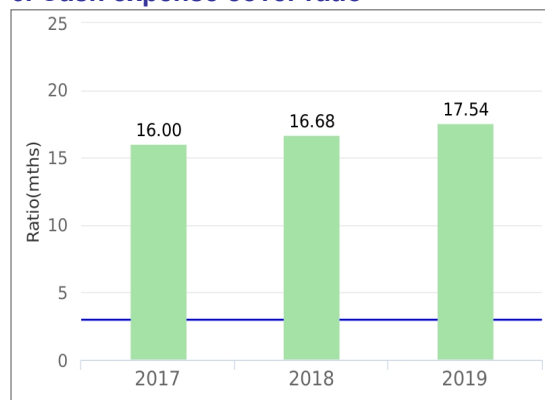
Benchmark: — < 10.00%

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 17.54 mths

This ratio has remained fairly consistent with a slight increase due to increased cash holdings at year end.

Benchmark: — > 3.00mths

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. Financial review

\$ '000	2019	2018	2017	2016	2015
Key financial figures of Council over the past 5 years					
Inflows:					
Rates and annual charges revenue	5,551	5,471	5,221	5,100	5,031
User charges revenue	25,994	22,877	21,412	21,727	20,994
Interest and investment revenue (losses)	691	595	522	922	1,140
Grants income – operating and capital	338	402	648	723	735
Total income from continuing operations	36,322	32,970	30,840	33,658	32,169
Sale proceeds from I,PP&E	279	214	452	333	166
Outflows:					
Employee benefits and on-cost expenses	8,972	7,942	8,127	8,032	7,148
Borrowing costs	570	653	163	162	902
Materials and contracts expenses	2,580	2,202	2,026	1,492	3,096
Total expenses from continuing operations	22,853	21,260	19,534	19,607	20,925
Total cash purchases of I,PP&E	15,928	11,025	17,716	35,016	11,870
Total loan repayments (incl. finance leases)	1,668	1,575	1,499	1,411	1,341
Operating surplus/(deficit) (excl. capital income)	10,456	8,391	8,914	10,202	8,129
Financial position figures					
Current assets	35,545	32,045	27,216	27,739	43,453
Current liabilities	8,159	6,868	7,319	6,128	5,904
Net current assets	27,386	25,177	19,897	21,611	37,549
Available working capital (Unrestricted net current assets)	27,669	23,338	15,898	19,068	26,059
Cash and investments – unrestricted	19,545	17,421	13,153	12,045	19,333
Cash and investments – internal restrictions	8,639	8,714	8,093	7,845	16,565
Cash and investments – total	28,184	26,135	21,246	19,890	35,898
Total borrowings outstanding (Loans, advances and finance leases)	9,019	10,687	12,262	13,761	15,172
Total value of I,PP&E (excl. land and earthworks)	510,376	490,822	475,164	454,537	360,265
Total accumulated depreciation	154,760	149,064	143,176	137,663	157,401
Indicative remaining useful life (as a % of GBV)	70%	70%	70%	70%	56%

Source: published audited financial statements of Council (current year and prior year)

Notes to the Financial Statements

for the year ended 30 June 2019

Note 24. Council information and contact details

Principal place of business:

91 Hammond Avenue
Wagga Wagga NSW 2650

Contact details

Mailing Address:

PO Box 456
Wagga Wagga NSW 2650

Telephone: 02 6922 0608

Facsimile: 02 6921 2241

Opening hours:

8:30am - 4:00pm
Monday to Friday

Internet: www.rwcc.nsw.gov.au

Email: admin@rwcc.nsw.gov.au

Officers

GENERAL MANAGER

Mr A Crakanthorp

RESPONSIBLE ACCOUNTING OFFICER

Ms E Tonacia

PUBLIC OFFICER

Ms E Tonacia

AUDITORS

Audit Office of New South Wales
Level 15, 1 Margaret Street
Sydney NSW 2000

Elected members

CHAIRPERSON

Clr G Verdon (Lockhart Shire)

COUNCILLORS

Clr P Funnell (City of Wagga Wagga)
Clr T Quinn (Greater Hume Shire)
Clr D Meyer, OAM (Greater Hume Shire)
Clr G Conkey, OAM (City of Wagga Wagga)
Clr T Koschel (City of Wagga Wagga)
Clr Y Braid, OAM (City of Wagga Wagga)
Clr V Keenan (City of Wagga Wagga)
Clr P Bourke (Federation Council)

Other information

ABN: 52 084 883 210



INDEPENDENT AUDITOR'S REPORT

Report on the general purpose financial statements

Riverina Water County Council

To the Councillors of the Riverina Water County Council

Opinion

I have audited the accompanying financial statements of Riverina Water County 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.

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
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information which may have been hyperlinked to/from the financial statements.

A handwritten signature in black ink, appearing to read 'M. Kharzoo', with a stylized flourish at the end.

Michael Kharzoo
Delegate of the Auditor-General for New South Wales, Financial Audit Services

18 September 2019
SYDNEY

Andrew Crakanthorp
General Manager
PO Box 456
WAGGA WAGGA NSW 2650

Contact: Michael Kharzoo
Phone no: (02) 9275 7188
Our ref: D1921088/1822

18 September 2019

Dear Mr Crakanthorp

**Report on the Conduct of the Audit
for the year ended 30 June 2019
Riverina Water County Council**






I have audited the general purpose financial statements (GPFS) of the Riverina Water County 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

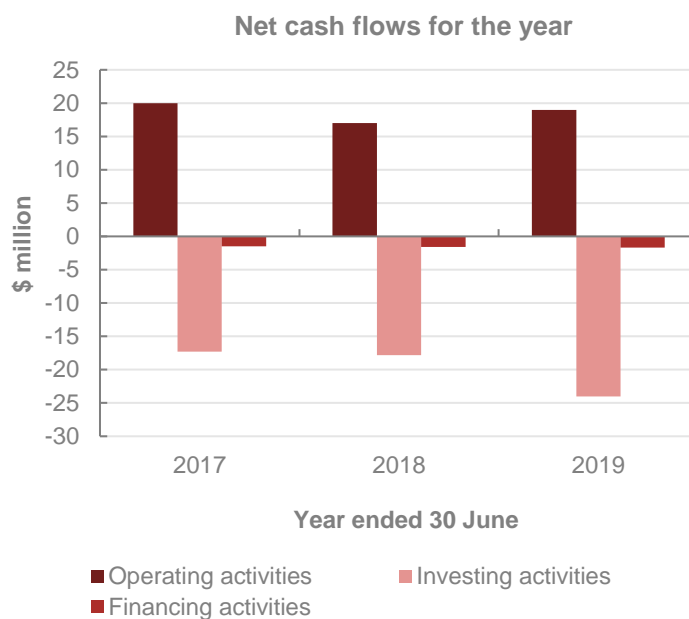
	2019 \$m	2018 \$m	Variance %
Rates and annual charges revenue	5.6	5.5	 1.8
User Charges and fees	26.0	22.9	 13.5
Grants and contributions revenue	3.4	3.7	 8.1
Operating result for the year	13.5	11.7	 15.4
Net operating result before capital grants and contributions	10.5	8.4	 25.0

The following comments are made in respect of Council's operating result for the year:

- Rates and annual charges revenue was \$5.6 million (\$5.5 million for the year ended 30 June 2018). The increase of \$0.1 million (1.8%) is consistent with an increase in Council rates by 1.8%.
- User charges and fees revenue was \$26.0 million (\$22.9 million for the year ended 30 June 2018). The increase of \$3.1 million (13.5%) can be attributed to the dry and hot weather over the summer period which resulted in higher water sales.
- Grants and contributions revenue was \$3.4 million (\$3.7 million for the year ended 30 June 2018). The decrease of \$0.3 million (8.1%) was due to lower than anticipated section 64 water contributions.
- Council's net operating result was a surplus of \$13.5 million (\$11.7 million surplus for the year ended 30 June 2018). The increase of \$1.8 million was mainly due to the increase of \$3.1 million in user charges and fees revenue. This was offset by the \$1.5 million increase in operating expenses during the year.
- The Council's net operating result before capital grants and contributions was a surplus of \$10.5 million (\$8.4 million for the year ended 30 June 2018). The increase of \$2.1 million was mainly due to the increase of \$3.1 million in user charges and fees revenue. This was offset by the \$1.5 million increase in operating expenses during the year.

STATEMENT OF CASH FLOWS

- Council's cash and cash equivalents was \$13.2 million (\$19.1 million for the year ended 30 June 2018). There was a net reduction in cash and cash equivalents of \$5.9 million at 30 June 2019.
- Net cash provided by operating activities has increased by \$2.1 million. This is mainly due to the increase in cash receipts from user charges and fees of \$2.9 million resulting from drier weather conditions. This is offset by reduction of \$0.6 million in grants and contributions cash receipts.
- Net cash used in investing activities has increased by \$5.8 million. This is due to increase in purchase of infrastructure, property, plant and equipment of \$4.9 million and purchase of investment securities of \$1.0 million.
- Net cash used in financing activities has increased by \$0.1 million. This is due to higher repayment of debt of \$0.1 million during the year.



FINANCIAL POSITION

Cash and investments

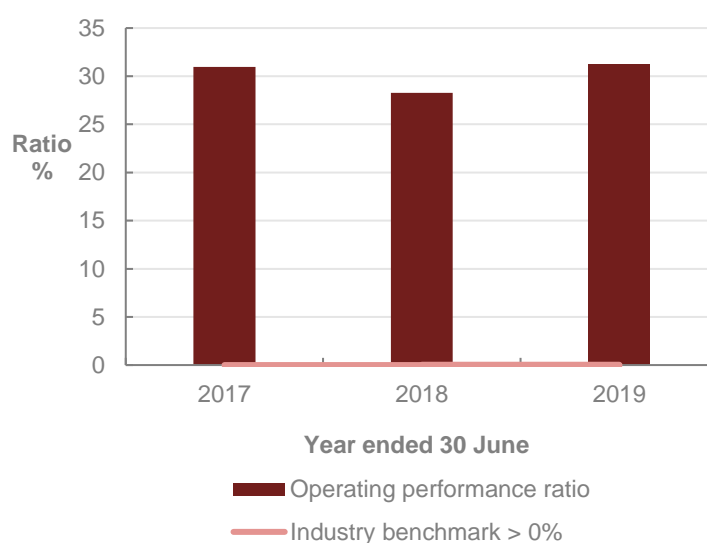
Cash and investments	2019	2018	Commentary
	\$m	\$m	
External restrictions	--	--	<ul style="list-style-type: none"> Internally restricted cash and investments have been restricted in their use by resolution or policy of Council to reflect identified programs of works and any forward plans identified by Council. There was minimal movement in the internal restrictions cash balance. Unrestricted cash and investments was \$19.5 million, which is available to provide liquidity for day-to-day operations of the Council. The increase in the unrestricted cash balance was due to higher than anticipated water sales due to dry weather during the year.
Internal restrictions	8.6	8.7	
Unrestricted	19.5	17.4	
Cash and investments	28.1	26.1	

PERFORMANCE

Operating performance ratio

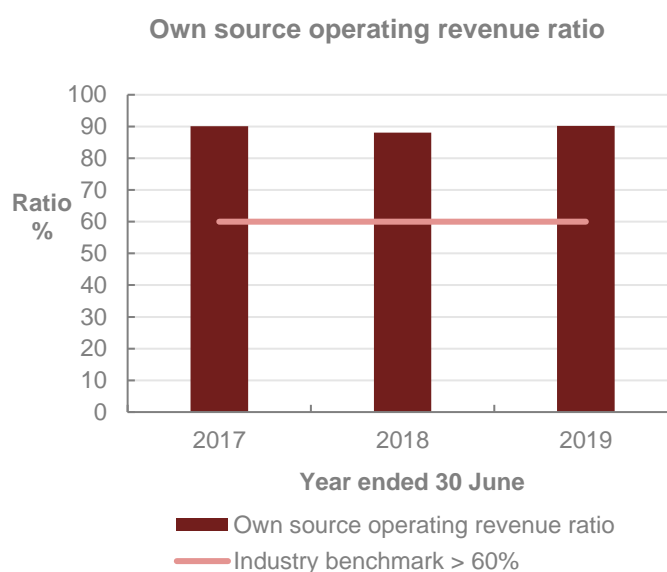
- The 'operating performance ratio' measures how well council contained operating expenditure within operating revenue (excluding capital grants and contributions, fair value adjustments, and reversal of revaluation decrements). The benchmark set by the former Office of Local Government (OLG) is greater than zero per cent.
- The operating performance ratio of 31.2% is above the industry benchmark of greater than 0%. This indicates the Council can contain operating expenditures with the operating revenue.
- The operating performance ratio increased to 31.2 % (2018: 28.3%) due to dry weather conditions resulting in higher than anticipated water sales.

Operating performance ratio



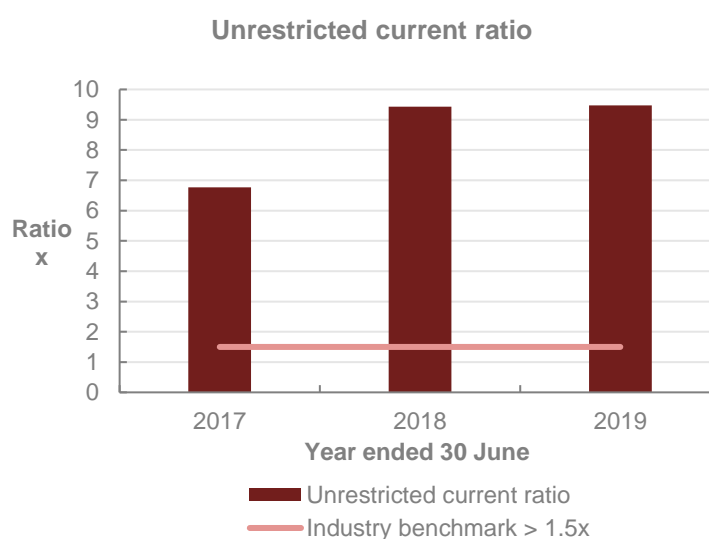
Own source operating revenue ratio

- The 'own source operating revenue ratio' measures council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by the former OLG is greater than 60 per cent.
- The council's own source operating revenue ratio of 90.2% is above the industry benchmark of 60%. Council has met this benchmark as its main source of income is from water sales, rather than reliance on operating grants and contributions.
- The own source operating revenue ratio increased in 2019, due to the decrease in grants and contributions revenue.



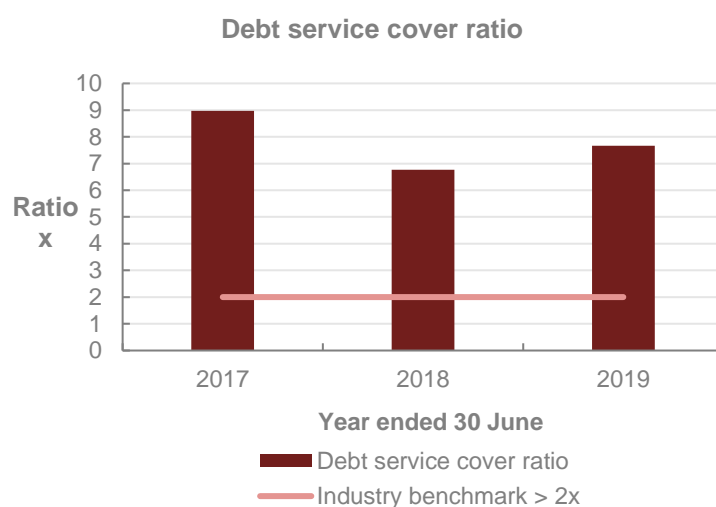
Unrestricted current ratio

- The 'unrestricted current ratio' is specific to local government and represents council's ability to meet its short-term obligations as they fall due. The benchmark set by the former OLG is greater than 1.5 times.
- The council's unrestricted current ratio of 9.5 times is greater than the industry benchmark minimum of greater than 1.5 times. This indicates that the Council has sufficient liquidity to meet its current liabilities as and when they fall due.
- The council's unrestricted current ratio has remained steady.



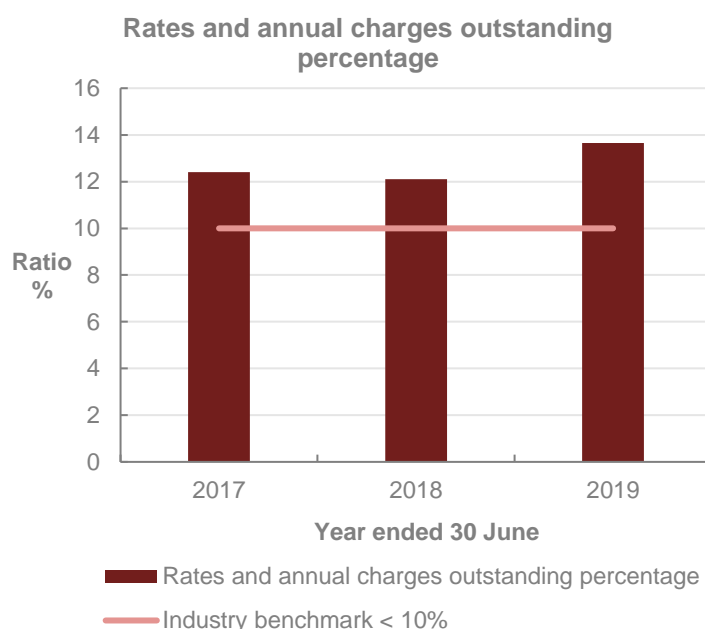
Debt service cover ratio

- The 'debt service cover ratio' measures the operating cash to service debt including interest, principal and lease payments. The benchmark set by the former OLG is greater than two times.
- The council's debt service cover ratio of 7.7 is greater than the industry benchmark minimum of greater than 2 times.
- Council has met this benchmark with an increase in the ratio due to reduced borrowing costs, nearing the completion of the Water Treatment Plant project and increase in income from continuing operations.
- The ratio indicates that the council has 7.7 times in operating cash available to service its debts. Council generates sufficient cash from its operations to fund its debt obligations.



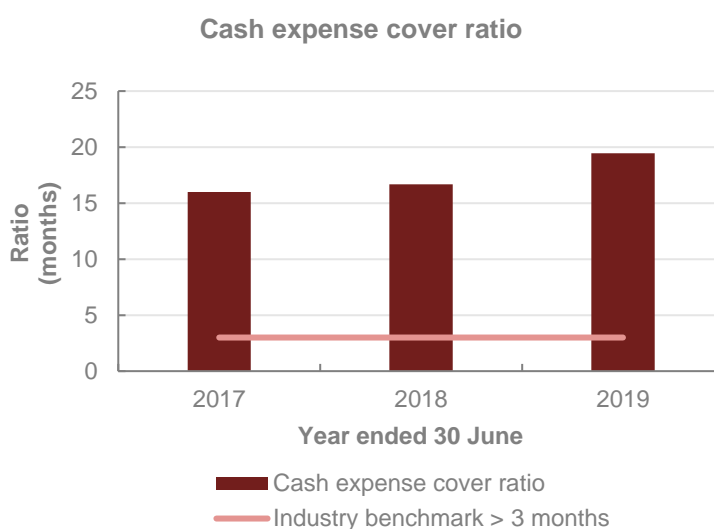
Rates and annual charges outstanding percentage

- The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on council's liquidity and the adequacy of debt recovery efforts. The benchmark set by the former OLG is less than 10% for regional and rural councils.
- The council's 'rates and annual charges outstanding ratio' of 13.7% is outside the industry benchmark of less than 10% for rural councils.
- The rates and annual charges outstanding percentage has increased from previous years (12.1% in 2018 and 12.4% in 2017).
- Council continues to exceed this benchmark due to the rolling quarterly billing arrangements.
- The billing cycle of water county councils need to be considered when assessing this ratio against other councils.



Cash expense cover ratio

- This 'cash expense cover 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.
- The council's 'cash expense cover ratio' was 19.5 months, which is above the industry benchmark of greater than 3 months. This indicates that Council has the capacity to cover 19.5 months of cash expenditure without additional cash inflows at 30 June 2019.
- The cash expense cover ratio increased compared with prior year due to an overall increase in cash holdings. This is as a result of increased water sales due to dry weather conditions.



Infrastructure, property, plant and equipment renewals

The council has renewed \$11.3 million of assets in the 2018–19 financial year, compared to \$5.7 million of assets in the 2017–18 financial year. The increase is primarily due to the increase of \$6.5 million work in progress renewals relating to the Water Treatment Plant which has experienced further delays and is only expected to be commissioned in the 2019–20 financial year. Renewal of Water supply network infrastructure has remained steady during the year.

OTHER MATTERS

New accounting standards implemented

Application period	Overview
AASB 9 'Financial Instruments' and revised AASB 7 'Financial Instruments: Disclosures'	
For the year ended 30 June 2019	<p>AASB 9 replaces AASB 139 'Financial Instruments: Recognition and Measurement' and changes the way financial instruments are treated for financial reporting.</p> <p>Key changes include:</p> <ul style="list-style-type: none">• a simplified model for classifying and measuring financial assets• a new method for calculating impairment• a new type of hedge accounting that more closely aligns with risk management. <p>The revised AASB 7 includes new disclosures as a result of AASB 9.</p> <p>Council's disclosure of the impact of adopting AASB 9 is disclosed in Note 13 (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.



Michael Kharzoo

Delegate to the Auditor-General for New South Wales, Financial Audit Services

cc: Greg Verdon, Chairperson
David Maxwell, Chairperson Audit and Risk Committee
Jim Betts, Secretary of the Department of Planning, Industry and Environment

Riverina Water County Council

SPECIAL PURPOSE FINANCIAL STATEMENTS
for the year ended 30 June 2019

**"to provide our community with safe reliable
water at the lowest sustainable cost"**



Special Purpose Financial Statements

for the year ended 30 June 2019

Contents	Page
Statement by Councillors & Management	3
Special Purpose Financial Statements	
Income Statement – Water Supply Business Activity	4
Income Statement – Sewerage Business Activity	n/a
Statement of Financial Position – Water Supply Business Activity	5
Statement of Financial Position – Sewerage Business Activity	n/a
Significant Accounting Policies	6

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).

Riverina Water County Council

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:

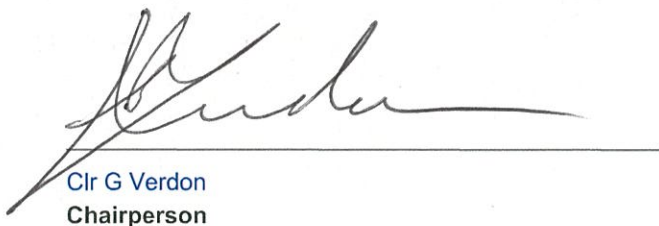
- the NSW Government Policy Statement '*Application of National Competition Policy to Local Government*',
- the Division of Local Government Guidelines '*Pricing and Costing for Council Businesses – A Guide to Competitive Neutrality*',
- the Local Government *Code of Accounting Practice and Financial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

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

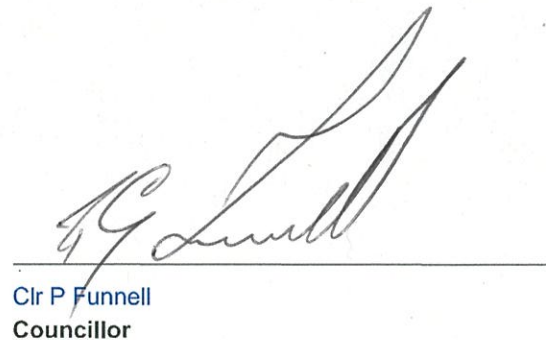
- present fairly the operating result and financial position for each of Council's declared business activities for the year, and accord with Council's accounting and other records.
- Present overhead reallocation charges to the water and sewerage businesses as fair and reasonable.

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

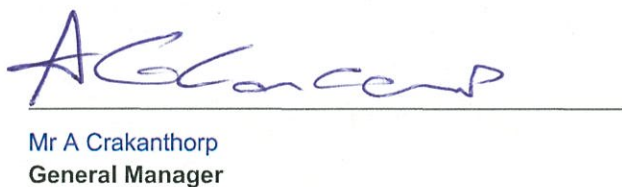
Signed in accordance with a resolution of Council made on 21 August 2019.



Clr G Verdon
Chairperson



Clr P Funnell
Councillor



Mr A Crakanthorp
General Manager



Ms E Tonacia
Responsible Accounting Officer

Income Statement – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
Income from continuing operations		
Access charges	5,551	5,271
User charges	25,994	22,877
Interest	691	595
Grants and contributions provided for non-capital purposes	338	602
Other income	735	306
Total income from continuing operations	33,309	29,651
Expenses from continuing operations		
Employee benefits and on-costs	8,972	7,942
Borrowing costs	570	653
Materials and contracts	2,580	2,202
Depreciation, amortisation and impairment	6,216	6,066
Water purchase charges	246	255
Loss on sale of assets	–	8
Calculated taxation equivalents	40	38
Other expenses	4,269	4,134
Total expenses from continuing operations	22,893	21,298
Surplus (deficit) from continuing operations before capital amounts	10,416	8,353
Grants and contributions provided for capital purposes	3,013	3,319
Surplus (deficit) from continuing operations after capital amounts	13,429	11,672
Surplus (deficit) from all operations before tax	13,429	11,672
Less: corporate taxation equivalent (27.5%) [based on result before capital] *	(2,864)	(2,506)
SURPLUS (DEFICIT) AFTER TAX	10,565	9,166
Plus accumulated surplus	121,909	110,199
Plus adjustments for amounts unpaid:		
– Taxation equivalent payments	40	38
– Corporate taxation equivalent	2,864	2,506
Closing accumulated surplus	135,378	121,909
Return on capital %	3.1%	2.6%
Subsidy from Council	–	98
Calculation of dividend payable:		
Surplus (deficit) after tax	10,565	9,166
Less: capital grants and contributions (excluding developer contributions)	(3,013)	1,191
Surplus for dividend calculation purposes	7,552	10,357
Potential dividend calculated from surplus	3,776	5,178

(*) 2017/18 corporate tax equivalent rate was 30%

Statement of Financial Position – Water Supply Business Activity

for the year ended 30 June 2019

\$ '000	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	13,184	19,135
Investments	15,000	7,000
Receivables	4,789	3,576
Inventories	2,572	2,334
Total current assets	35,545	32,045
Non-current assets		
Infrastructure, property, plant and equipment	359,595	346,174
Intangible assets	7,602	4,300
Total non-current assets	367,197	350,474
TOTAL ASSETS	402,742	382,519
LIABILITIES		
Current liabilities		
Payables	1,146	1,018
Income received in advance	445	462
Borrowings	1,761	1,675
Provisions	4,268	3,713
Total current liabilities	7,620	6,868
Non-current liabilities		
Borrowings	7,258	9,012
Total non-current liabilities	7,258	9,012
TOTAL LIABILITIES	14,878	15,880
NET ASSETS	387,864	366,639
EQUITY		
Accumulated surplus	135,378	121,909
Revaluation reserves	252,486	244,730
TOTAL EQUITY	387,864	366,639

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.

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)

Riverina Water County Council

Water supply operations servicing the local government areas of Wagga Wagga City, Federation, Lockhart, & Greater Hume Shire.

Category 2

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

Nil

Monetary amounts

Amounts shown in the financial statements are in Australian dollars and rounded to the nearest one thousand dollars, except for Note 2 (Water Supply Best-Practice Management Disclosures).

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

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

Note 1. Significant Accounting Policies (continued)

(i) Taxation equivalent charges

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

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

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

Notional rate applied (%)

Corporate income tax rate – 27.5%

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

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

In accordance with 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.

(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:

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

Note 1. Significant Accounting Policies (continued)

Operating result before capital income + interest expense

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

As a minimum, business activities should generate a return equal to the Commonwealth 10 year bond rate which is 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

Riverina Water County Council

To the Councillors of the Riverina Water County Council

Opinion

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

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Council's declared business activity 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.

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

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

I have nothing to report in this regard.

The Councillors' Responsibilities for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

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

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

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

My opinion does not provide assurance:

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

A handwritten signature in black ink, appearing to read 'M. Kharzoo', with a stylized flourish at the end.

Michael Kharzoo

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

18 September 2019
SYDNEY

Riverina Water County Council

SPECIAL SCHEDULES

for the year ended 30 June 2019

**"to provide our community with safe reliable
water at the lowest sustainable cost"**



Special Schedules
for the year ended 30 June 2019

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Report on Infrastructure Assets

as at 30 June 2019

Asset Class	Asset Category	Estimated cost		2018/19 Required maintenance ^a	2018/19 Actual maintenance	Net carrying amount	Gross replacement cost (GRC)	Assets in condition as a percentage of gross replacement cost				
		Estimated cost to bring assets to satisfactory standard	to bring to the agreed level of service set by Council					1	2	3	4	5
(a) Report on Infrastructure Assets - Values												
Buildings	Buildings – non-specialised	–	–	215	241	3,222	3,807	40.9%	53.2%	5.9%	0.0%	0.0%
	Buildings – specialised	–	–	162	120	11,216	12,431	55.1%	11.7%	31.2%	1.9%	0.0%
	Sub-total	–	–	377	361	14,438	16,238	51.8%	21.5%	25.3%	1.5%	0.0%
Water supply network	Treatment Plants	4,099	4,099	860	639	28,127	43,376	0.1%	17.2%	38.1%	44.6%	0.1%
	Bores	117	117	195	161	6,830	12,065	3.9%	30.2%	62.7%	3.3%	0.0%
	Reservoirs	1,889	1,889	250	187	45,652	63,020	10.1%	11.0%	54.3%	23.2%	1.3%
	Pumping Stations	76	76	200	238	9,045	16,683	8.9%	10.3%	67.6%	7.5%	5.7%
	Pipeline	17,762	17,762	875	1,363	197,293	300,566	22.5%	42.6%	27.5%	7.4%	0.0%
	Sub-total	23,943	23,943	2,380	2,588	286,947	435,710	17.4%	33.9%	35.0%	13.2%	0.4%
TOTAL - ALL ASSETS		23,943	23,943	2,757	2,949	301,385	451,948	18.7%	33.5%	34.6%	12.8%	0.4%

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

Infrastructure asset condition assessment 'key'

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

Report on Infrastructure Assets (continued)

as at 30 June 2019

\$ '000	Amounts 2019	Indicator 2019	Prior periods 2018 2017		Benchmark
Infrastructure asset performance indicators (consolidated) *					
Buildings and infrastructure renewals ratio ¹					
Asset renewals ²	3,362	60.62%	76.98%	104.85%	>=100.00%
Depreciation, amortisation and impairment	5,546				
Infrastructure backlog ratio ¹					
Estimated cost to bring assets to a satisfactory standard	23,943	7.94%	7.32%	29.26%	<2.00%
Net carrying amount of infrastructure assets	301,385				
Asset maintenance ratio					
Actual asset maintenance	2,949	106.96%	102.44%	101.71%	>100.00%
Required asset maintenance	2,757				
Cost to bring assets to agreed service level					
Estimated cost to bring assets to an agreed service level set by Council	23,943	5.30%	4.92%	19.78%	
Gross replacement cost	451,948				

(*) 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.